Creating an Enabling Environment for Stimulating Investment for Competitive and Sustainable Counties

KENYA ECONOMIC REPORT 2013

KENYA INSTITUTE FOR PUBLIC POLICY RESEARCH AND ANALYSIS

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Nairobi, Kenya
2013

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Foreword

The Kenya Institute for Public Policy Research and Analysis (KIPPRA) Act 2006 requires the Institute to prepare a report on the performance of Kenya's economy during the preceding financial year and economic prospects for the next three years. This is the fifth Kenya Economic Report prepared pursuant to the KIPPRA Act.

The compilation of the Kenya Economic Report 2013 is a milestone in the government's efforts to take stock of the economic gains Kenya has achieved and challenges ahead. More importantly, the report gives the government and the private sector, and indeed all citizens, the opportunity to benchmark our mode of economic activities with what is happening in other countries that we share similar historical and economic orientation with.

As a country, we have documented our vision on the development path we want to follow in Kenya's Vision 2030. The theme of KER 2013, "*Creating an Enabling Environment for Stimulating Investment for Competitive and Sustainable Counties*", recognizes that the Constitution of Kenya 2010 envisages that the country's development model is anchored on regional governance structures, constituted into 47 counties. With the formation of counties, creation of an enabling investment climate will enable them to attract investment for development, poverty reduction and employment creation within their jurisdiction. Investment is a key driver in production and productivity and therefore can play a major role in achieving balanced regional growth. But investment will only materialize if we build capacities in entrepreneurial attributes/competencies and also enhance the state of technology, market access, infrastructure and institutional support to businesses. By and large, the extent to which these factors influence investment is dependent on stability in the macro environment. To facilitate growth in counties, it is important to put in place interventions that attract and retain investment.

As the country grapples with the issues highlighted in this report, we are clearly aware of the circumstances facing our nation today, more so the challenge of creating social cohesiveness, and building the country's social capital. We are alive to the critical challenges we have faced during the implementation of the First Medium Term Plan 2008-2012, and the critical resource requirements for the Second Medium Term Plan starting 2013. Economic growth in 2012 stood at 4.6 per cent against the Medium Term Plan target of about 9.8 per cent. There are other challenges such as fiscal pressure related to the implementation of the Constitution, significant deficits in our current account, and over 13 per cent unemployment that mainly affects young people. It is against this background that the country should boldly reflect on the right policies that will not only drive us to be a middle income country in a few years to come, but also those that promote overall inclusiveness of Kenyans to participate in the market economy.

Consequently, as a nation, we must prioritize the implementation of prudent macroeconomic policies, smooth transition to a devolved government and promote investment across counties. We need a structural change that involves shift of resources from low productivity to higher productivity sectors in order to address the intertwined problems of unemployment and poverty. We shall be able to do this only with predictable and accountable regulatory and legal frameworks.

Anne Waiguru, OGW
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Preface

The Kenya Economic Report (KER) 2013 is the fifth in a series of annual reports on the Kenyan economy prepared by the Kenya Institute for Public Policy Research and Analysis (KIPPRA). Pursuant to the KIPPRA Act No. 15 of 2006, the report is prepared in consultation with the Ministry of Devolution and Planning, the National Treasury, and the Central Bank of Kenya.

The KER 2013 analyses Kenya's recent economic performance and medium term prospects. The theme of KER 2013 is *"Creating an Enabling Environment for Stimulating Investment for Competitive and Sustainable Counties"*. This is timely as the implementation of the devolution process continues to gather momentum. The Constitution of Kenya and the County Governments Act No. 17 of 2012 envisage that the 47 county governments will play an important role in Kenya's economic development. The report underscores the need to build effective and capable county governments that will deliver on their constitutional mandates. Effective coordination and cohesive inter-governmental relations are required to especially support effective public financial management, leveraging partnerships, infrastructure and human resource development, growth of micro and small enterprises and land adjudication.

The Kenyan economy is on a strong recovery path, and the medium term prospects are positive, predicated on smooth transition to devolved governance system, continued implementation of the reform agenda as outlined in the Medium Term Plan and Vision 2030, regional stability and security, favourable weather conditions and a stable global economic environment. Nonetheless, the government needs to maintain flexibility in order to effectively respond to the changing policy environment.

This report projects that the economy will grow by about 5.5 per cent in 2013 and further to 6.3 per cent in 2014. In the recent past, all the sectors of the economy registered positive growth. However, there is potential to increase the contribution to growth by the various sectors if the challenges identified in this report are effectively and deliberately addressed. For instance, following the discovery of oil, gas and other minerals such titanium and other rare earth minerals, the mining sector has the potential to contribute significantly to growth. However, a coherent legal and policy framework is required to maximize both forward and backward linkages to the rest of the economy, and support accountability and productive use of earnings from Kenya's natural assets.

Part I of the report analyses macro and socio-economic performance, Part II analyses the key sectors of the economy, namely: agriculture, manufacturing, trade and foreign policy, financial services, tourism, micro and small enterprises, infrastructure, and environment and natural resources. Part III presents the medium term prospects for the economy under different policy scenarios. Part IV of the report analyses various aspects of creating an enabling investment climate, including effective management of public resources, leveraging public private partnerships, natural resource management, development and growth of small and micro-enterprises, and stronger property rights through land adjudication. The overall message from KER 2013 is that Kenya is on a recovery path, and the prospects remain positive. Implementation of the Constitution 2010 provides the country with the opportunity to upgrade governance structures that will help enhance the effectiveness of the State and global competitiveness. Going forward, the main challenge is to continue to deepen structural reforms and build effective and capable county governments that will support Kenya's development agenda.

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2013

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The Kenya Economic Report 2013 was prepared and produced by staff of the Kenya Institute for Public Policy Research and Analysis (KIPPRA) under the overall leadership of the Executive Director.

The report was prepared in consultation with the Central Bank of Kenya, the National Treasury, the Ministry of Devolution and Planning, the National Economic and Social Council, the Kenya National Bureau of Statistics and the Ministry of East African Community, Commerce and Tourism.

Comments and suggestions on earlier drafts of the report were very helpful in shaping the content and quality of analysis.

Abbreviations and Acronyms

ACE	Adult and Continuing Education
ACT	Artemisinin Combination Therapy
AGOA	Africa Growth Opportunity Act
A-i-A	Appropriations-in-Aid
AIDS	Acquired Immune Deficiency Syndrome
APR	Annual Progress Report
ARVs	Anti-Retrovirals
ASALs	Arid and Semi-Arid Lands
ATMs	Automated Teller Machines
BRRU	Business Regulatory Reform Unit
CAACs	Catchment Area Advisory Committee
CAADP	Comprehensive Africa Agriculture Development Programme
CAREC	Central Asia Regional Economic Cooperation
CBD	Convention on Biological Diversity
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CCK	Communications Commission of Kenya
CCVI	Climate Change Vulnerability Index
CDE	Centre for Development and Environment
CDF	Constituency Development Fund
CFAs	Community Forestry Associations
CIS	Credit Information Sharing
CMA	Capital Markets Authority
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CRA	Commission for Revenue Allocation
DFIs	Development Finance Institutions
DTMs	Deposit Taking Microfinance Institutions
EAC	East African Community
ECA	Economic Commission for Africa
ECDE	Early Childhood and Development Education
EFA	Education for All
EMCA	Environmental Monitoring and Coordination Act
EMIS	Education Management Information System
EPZs	Export Processing Zones
ERD	External Resources Department
ESP	Economic Stimulus Programme
EU	European Union
FAO	Food and Agriculture Organization
FBOs	Faith-Based Organizations

FDI	Foreign Direct Investment
FGM	Female Genital Mutilation
FMCF	Forest Management and Conservation Fund
FMTP	First Medium Term Plan
FPAK	Family Planning Association of Kenya
FPE	Free Primary Education
FTA	Free Trade Area
FTEC	Foreign Trade and Economic Cooperation
GAVI	Global Alliance for Vaccine Initiative
GDP	Gross Domestic Product
GER	Gross Enrolment Rate
GHG	Green House Gases
GJLOS	Governance, Justice, Law and Order Sector
GMS	Greater Mekong Sub-region
GNP	Gross National Product
GoK	Government of Kenya
HDI	Human Development Index
HELB	Higher Education Loans Board
ICOR	Incremental Capital Output Ratio
ICT	Information and Communications Technology
IEBC	Independent Electoral and Boundaries Commission
IFMIS	Integrated Financial Management System
IGT	Impaired Glucose Tolerance
ILO	International Labour Organization
IMF	International Monetary Fund
IUDs	Intra-Uterine Devices
JAB	Joint Admissions Board
JICA	Japan International Cooperative Agency
JKIA	Jomo Kenyatta International Airport
JMP	Joint Monitoring Programme
JSC	Judicial Service Commission
KCPE	Kenya Certificate of Primary Education
KCSE	Kenya Certificate of Secondary Education
KDHS	Kenya Demographic and Health Survey
KEFRI	Kenya Forestry Research Institute
KEMRI	Kenya Medical Research Institute
KEMSA	Kenya Medical Supplies Agency
KENAO	Kenya National Audit Office
KENTRA	Kenya National Trunk Roads Authority
KEPI	Kenya Expanded Programme on Immunization
KER	Kenya Economic Report
KEWI	Kenya Water Institute
KFS	Kenya Forestry Service
KIHBS	Kenya Integrated Households Budget Survey
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNBS	Kenya National Bureau of Statistics
KNEC	Kenya National Examination Council
KNH	Kenyatta National Hospital
KNTC	Kenya National Trading Corporation
KQ	Kenya Airways
KRA	Kenya Revenue Authority
KTB	Kenya Tourist Board
KTDC	Kenya Tourism Development Corporation
KTMM	KIPPRA-Treasury Macro Model
Kwh	Kilowatt hours
LAIFOMS	Local Authority Integrated Financial Operations Management System
LAPSET	Lamu Port -South Sudan and Ethiopia Transport
LASDAP	Local Authority Service Delivery Action Plan
LATF	Local Authorities Transfer Fund
LTMs	Long Term Means
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
MIA	Moi International Airport (Mombasa)

MICE	Meetings, Incentives, Conferences and Exhibitions
MIPs	Medical Insurance Providers
MMR	Maternal Mortality Rate
MoH	Ministry of Health
MoPHS	Ministry of Public Health Services
MoU	Memorandum of Understanding
MPHS	Ministry of Public Health and Sanitation
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
MWI	Ministry of Water and Irrigation
NAFTA	North American Free Trade Agreement
NASI	Nairobi All Share Index
NBI	Nile Basin Initiative
NCCK	National Council of Churches of Kenya
NCDs	Non-Communicable Diseases
NCIC	National Cohesion and Integration Commission
NCPB	National Cereals and Produce Board
NCPD	National Council for Population and Development
NCR	Nairobi Cancer Registry
NEMA	National Environmental Monitoring Authority
NER	Net Enrolment Rate
NGOs	Non-Governmental Organizations
NHIF	National Health Insurance Fund
NIB	National Irrigation Board
NICs	Newly-Industrialized Countries
NPLs	Non-Performing Loans
NPSC	National Police Service Commission
NRW	Non-Revenue Water
NSE	Nairobi Securities Exchange
NWCPC	National Water Conservation and Pipeline Corporation
OSS	One-Stop Shops
PAYE	Pay As You Earn
PCPB	Pest Control Products Board
PFM	Public Financial Management
PMCT	Prevention of Mother to Child Transmission
PPP	Public-Private Partnership
PSDS	Private Sector Development Strategy
R&D	Research and Development
RECs	Regional Economic Communities
REDD	Reducing Emissions from Deforestation and Forest Degradation
RIA	Regulatory Impact Assessment
RMLF	Road Maintenance Levy Fund
ROSCAS	Rotating Savings and Credit Associations
SACCOs	Savings and Credit Cooperatives
SACMEQ	Southern and Eastern Africa Consortium for Monitoring Education and Quality
SAGAs	Semi-Autonomous Government Agencies
SEZs	Special Economic Zones
SMEs	Small and Medium Enterprises
SPV	Special Purpose Vehicle
SSA	Sub-Sahara Africa
TBK	Tea Board of Kenya
TEAMs	The East African Marine System
TIVET	Technical, Industrial, Vocational and Entrepreneurship Training
TOT	Turnover Tax
UAE	United Arab Emirates
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNICEF	United Nations Children's Fund
UNWTO	United Nations World Tourism Organization
USAID	United States Agency for International Development

VAT	Value Added Tax
WAB	Water Appeals Board
WARMA	Water Resources Management Authority
WASREB	Water Services Regulatory Board
WEF	World Economic Forum
WHO	World Health Organization
WRUAs	Water Resource Users Associations
WSBs	Water Service Boards
WSPs	Water Service Providers
WSS	Water and Sanitation Services
WSTF	Water Services Trust Fund
WTA	World Travel Awards
WTO	World Trade Organization

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Executive Summary

This report analyzes the recent performance of the Kenyan economy and provides an assessment of the medium term prospects under different assumptions. The key areas that are analyzed include recent macroeconomic performance, governance, social economic development, and the main sectors of the economy such as agriculture, manufacturing, trade and foreign policy, financial services, tourism, micro and small enterprises, infrastructure and economic services, and environment and natural resources.

The theme of the report is *Creating an Enabling Environment for Stimulating Investment for Competitive and Sustainable Counties*. This is timely as the implementation of devolution gathers full momentum. The Constitution and the County Governments Act No. 17 of 2012 envisage that the 47 county governments will play an important role in Kenya's economic development. The Kenyan economy is on a strong recovery path, and the medium term prospects are positive, predicated on a smooth transition to devolved governance system, continued implementation of the reform agenda as outlined in the Medium Term Plan and Vision 2030, regional stability and security, favourable weather conditions and a stable global economic environment. Nonetheless, the government will have to enhance capacity and policy flexibility to respond effectively to the changing policy environment.

Macroeconomic Performance

The Kenyan economy registered improved economic performance in 2012 with an annual growth of 4.6 per cent in GDP compared to 4.4 per cent in 2011. The macroeconomic environment witnessed improved price and exchange rate stability. However, per capita income growth, which is largely explained by labour market dynamics, has been relatively slow at 1.7 per cent in 2012. The Kenyan labour market is characterized by a large share of informal sector employment, which partly explains the low levels of income per capita and productivity. The informal sector is generally characterized by low productivity, vulnerability of employment, and low incomes.

Recent growth has largely been driven by growth in domestic household consumption and investment. Household consumption accounts for about 77.3 per cent of GDP and grew by about 5.5 per cent in 2012. The share of investment in GDP in real terms was about 27.6 per cent and grew by about 9.6 per cent. The corresponding share in nominal terms was 20.1 percent, implying that the relative prices have been favourable for investment goods. All the sectors of the economy witnessed positive growth in 2012. However, there is potential to increase the contribution to growth of various sectors if the challenges that have been identified can be addressed effectively.

For instance, the mining and quarrying sector has the potential to contribute significantly to growth following the discovery of oil, gas and other minerals. However, a coherent legal and policy framework is required to maximize both forward and backward linkages to the rest of the economy, and support accountability and productive use of earnings from natural resources. Similarly, the weak capacity of the domestic construction industry needs to be addressed to ensure increased benefits from the enhanced investment activity in the infrastructure sector.

Macroeconomic stability should remain a top policy priority for the government as there are potential risks emanating from internal and external imbalances. These include: fiscal pressure arising from implementation of Medium Term Plan programmes, the 2010 Constitution, and demands for higher wages and salaries; a growing current account deficit; and investment-savings resource gap. The government should be ready to respond flexibly to the changing economic landscape in order to ensure exchange rate stability, and also ensure that inflation expectations are anchored within the policy target. Effective operationalization of the Public Finance Management (PFM) Act 2012 is critical in establishing a sound public financial management system to support management of public resources both at the national and county government level.

Governance

Kenya's aggregate governance performance is above the continental average score based on the Mo Ibrahim African Governance Index, 2012. However, an assessment of Kenya's governance based on Worldwide Governance Indicators produced by the World Bank reveals that there is greater scope for improving governance on all fronts, namely: i) Voice and Accountability, ii) Political Stability and Absence of Violence, iii) Government Effectiveness, iv) Regulatory Quality, v) Rule of Law, and vi) Control of Corruption.

The implementation of the Constitution is a major milestone in uplifting Kenya's governance performance. Various independent offices have been established that have their foundations in the Constitution to spearhead reforms in various spheres of the society. They include the Independent Election and Boundaries Commission (IEBC), the Salaries and Remuneration Commission, the Transition Authority, the Controller of Budget, the Ethics and Anti-Corruption Commission, the Commission on Revenue Allocation, and the Judicial Service Commission. The Judiciary has historically faced severe capacity gaps in infrastructure and human resource. However, efforts are being made to address these challenges, including through recruitment of judges and expansion of court infrastructure.

With regard to the Legislature, the Bicameral Legislature (two Houses) with representatives elected to either the Senate or the National Assembly has become operational. However, according to results from the Afro-barometer, less than 40 per cent of Kenyans have trust in the National Assembly. Timely and effective implementation of the Constitution is an important instrument for streamlining governance so as to enhance accountability, transparency, predictability and participation in management of public affairs and resources.

Poverty, Inequality and Population Growth

The fight against poverty is a top priority on Kenya's development policy agenda. The government's commitment to the realization of MDGs, elimination of hunger and poverty, and achievement of inclusive and equitable growth is contained in various policy documents such as the Medium Term Plan and

Vision 2030. In the recent past, the economy has faced various shocks and challenges resulting in high cost of living and below-target growth rates. Consequently, the overall poverty levels increased from 48.8 per cent in 2007 to 50.8 per cent in 2008 before declining marginally to 49.8 per cent in 2012. In terms of the number of poor people in the population, it was estimated at 18.2 million in 2007 and the number soared to 19.5 million and later 20.1 million in 2008 and 2010, respectively. The increase in 2008 is largely explained by the slowdown in the economy, and high inflation following the post-election violence, drought, high international food and energy prices, and the global financial crisis. The level of income inequalities is relatively high, and Kenya's urban population is growing at 4 per cent per annum.

The magnitude of poverty varies from county to county. Counties such as Kitui, Marsabit, Mandera, Samburu, Tana River, Turkana and West Pokot have poverty levels above 70 per cent. These counties are also characterized by relatively weak infrastructure and poor access to public services.

Kenya is undergoing a demographic transition where the ratio of working age to non-working age population is increasing. Experts use the term demographic dividend to refer to potential benefits of this transition, such as reduced dependence ratios. Kenya's dependence ratio in 2011 was estimated at 82.14. Middle income countries are at an advanced stage of transition with much lower dependence ratios. For instance, Malaysia's dependence ratio in 2011 was around 53 per cent. These trends indicate the need for the government to invest more in social services and infrastructure, and ensure that a growing economy creates jobs for the large youthful population.

Labour Market and Employment

The employment rate (proportion of employed persons to the working age population) is about 69.2 per cent. The rate of unemployment is estimated at 8.6 per cent, having improved from 12.7 per cent in 2005/06. However, a high proportion of employment is in the informal sector and small-scale agriculture and pastrolism. The rates of unemployment vary widely across the counties, although analysis of available data shows that counties with high rates of urbanization such as Kisumu, Nairobi and Mombasa, and counties in ASAL areas tend to have relatively higher levels of unemployment.

The Kenyan labour market is characterized by a number of challenges including: (i) high youth unemployment. The respective unemployment rates for the 15-35 and 15-24 age groups based on the 2009 Census data are 10.4 per cent and 14.2 per cent; (ii) high levels of under-employment; and (iii) high levels of employment in the informal sector. Informality is widespread across Kenya's regions but is more pronounced in rural areas. The bulk of the employed labour force is in smallholder agriculture and the rapidly growing informal sector. However, most of the informal economy jobs are vulnerable, i.e. the jobs lack the 'collective aspects' that make up decent work. These aspects include: productive work, workplace security, better prospects for personal development, social protection, and social integration; and (iv) Kenya's labour force has relatively low education attainment compared to middle-income countries. About 65 per cent of the population has only primary or incomplete secondary education, while another 10 per cent has never attended school. Given the above labour market challenges, government interventions to address unemployment should also give attention to skills development and training.

Health

In the recent past, the health sector has recorded mixed performance. While some health indicators have registered strong performance, there are numerous gaps in health outcomes. Remarkable achievements have been made in reducing under-five mortality from 115 per 1,000 live births in 2003 to 74 per 1,000 live births in 2008/09 and infant mortality from 77 per 1,000 live births to 52 per 1,000 live births over the same period. The rate of immunization increased from 64 per cent in 2005/06 to 77 per cent in 2009. The plan to reduce HIV prevalence to 6.3 per cent by 2010/11 was almost met. However, performance on indicators of maternal health has been dismal. Data from the Kenya Demographic and Health Survey (KDHS) reveal that Maternal Mortality Ratio (MMR) deteriorated from 414 in 2003 to 488 deaths per 100,000 live births in 2008/09. Nutritional status of children has also not improved considerably. Staffing levels in the sector fell below the WHO recommended minimum of 36 and 356 doctors and nurses, respectively, per 100,000 population. Moreover, accessibility to health facilities varies across counties, with the worst affected areas being in the Northern part of Kenya. Health sector financing is also below the WHO recommendation.

Most other targets in the health sector have not been met. The target for skilled birth attendance was 66 per cent for 2010/11, yet only 43 per cent of deliveries were performed by a health professional in the same year. In 2010/2011, the immunization target was 77 per cent against a target of 90 per cent. Non-communicable diseases such diabetes and cancer are increasingly contributing to morbidity and mortality.

The government should double efforts on the commitment to improve health sector infrastructure, attaining acceptable standards and norms without adversely affecting staffing, equipment, infrastructure and operating costs across all counties.

Education and Skills Development

Overall, there has been remarkable increase in access and participation rates in the education sector as reflected in indicators such as enrolment rate (both gross and net) and gender parity across all levels. However, there are disparities across counties, with the worst affected areas being the arid and semi-arid lands and those areas with high poverty levels. Primary education recorded the highest participation rate, while access rates at ECDE, secondary and tertiary education are still low. Literacy levels are still low in some counties, which calls for the need to strengthen adult education programmes in the affected areas.

Disparities in education outcomes at county level are further aggravated by inefficient utilization of available resources, as manifested through teacher absenteeism and limited emphasis on monitoring of actual performance. Learning outcomes at the secondary school level are still weak, with about 70 per cent of KCSE candidates failing to achieve C+, which is the minimum requirement for admission to university. Transition to university is below 40 per cent.

The government should consider various policy options to enhance performance of the sector, including: automatic promotion from pre-primary to primary and to secondary education, develop objective instruments to support monitoring and evaluation of education outcomes, strengthen quality assurance, implement staffing norms so as to achieve equitable distribution of teachers, and establish more tertiary institutions.

Agriculture

The performance of the agriculture sector was adversely affected at the beginning of 2012 when a severe frost dealt a blow to tea production, while the delay in the onset of long rains led to suppressed agricultural activities. However, improved and widespread rains during the second and third quarters of the year contributed to strong performance of the sector. The sector grew by 3.8 per cent in 2012 compared to 1.5 per cent in 2011 and received about 4.0 per cent of national expenditure, although this is below the allocation of 10 per cent as per the Maputo Declaration.

Agriculture functions have been devolved under the Constitution of Kenya 2010. The county governments can leverage public-private partnerships (PPPs) to enhance agricultural production and productivity. Potential areas for application of PPPs include cold chain infrastructure; use of

ICT in collecting, processing and disseminating information; development of cottage industries; and skills development. Development of inter-county markets also offers opportunities for increasing access to markets.

Manufacturing

The manufacturing sub-sector in Kenya constitutes 70 per cent of the industrial sector's contribution to GDP with building, construction, mining and quarrying cumulatively contributing the remaining 30 per cent. The share of the manufacturing sector in GDP has stagnated at about 10 per cent, with the sector's growth during the first Medium Term Plan being a mere 3.16 per cent. The sector is predominantly agro-processing, with manufacture of food, tobacco, beverages and textile accounting for over 34.0 per cent of total sectoral value added. Consequently, the performance of the sector is greatly affected by erratic weather patterns.

The sector grew by 3.1 per cent in 2012 compared to 3.4 per cent in 2011. The weak performance is attributed to high costs of production, stiff competition from imported goods, high costs of credit, drought incidences during the first quarter of 2012, and uncertainties due to the 2013 general elections. The influx of counterfeits and volatility in international oil prices also affected the performance of the sector. Although the sector value added improved from Ksh 292.4 billion in 2011 to Ksh 316.7 billion in 2012, the sector's contribution to GDP declined from 9.6 per cent in 2011 to 9.2 per cent in 2012. The number of wage employment in the sector increased from 276,900 employees in 2011 to 277,900 employees in 2012, a mere 0.4 per cent improvement. This unfavourably compares with 3.4 per cent employment growth between 2010 and 2011. The sector's contribution to total wage employment has actually gradually worsened from 13.9 per cent in 2008 to 12.9 per cent in 2012.

Kenya's manufacturing is largely agro-based. This contrasts with newly industrialized countries where food manufacture constitutes a small share, with manufacture of chemicals, electronics and machinery constituting over 40 per cent of total value added. Kenya's exports under AGOA are about 0.8 per cent, comparing favourably with Tanzania, Uganda and Ethiopia, each having a share of less than 0.3 per cent. However, it compares unfavourably with Angola (20%) and South Africa (17%). Kenya's share of manufacturing in total merchandise exports is 35 per cent compared to South Africa (47%), Malaysia (67%) and Singapore (73%). This indicates ample opportunities for Kenya to increase the share of manufacturing exports.

To revitalize the performance of the sector, policy incentives geared towards high-value manufacturing, inter-firm linkages and enhanced FDI should be encouraged. To combat counterfeits, regional efforts to establish harmonized anti-counterfeit laws should be expedited. Further, increased public awareness on counterfeits, coupled with enhanced financial and human resources for the Kenya Anti-Counterfeit Agency, should be considered. To address costs of production, enhanced investments in alternative energy sources including geothermal, wind and solar energy are vital. This should be corroborated by addressing other factors contributing to the high cost of doing business, such as infrastructure and contract enforcement.

Trade and Foreign Policy

Vision 2030 and the Medium Term Plan identify trade as a key driver of growth. Domestic trade accounts for about 10 per cent of GDP in Kenya and about 16 per cent and 60 per cent of recorded formal and informal employment, respectively. In recent years, Kenya has recorded a rapid growth in supermarkets and hypermarkets; between 2000 and 2010, a growth of 32 per cent was realized. Kenyan supermarkets such as Nakumatt and Uchumi are expanding to regional markets. Domestic trade faces many challenges, including a large informal component, access to finance, interference from local authorities, insecurity, and lack of physical facilities. The areas that require strategic interventions include provision of infrastructure, and regulatory and administrative barriers.

Kenya's external trade is highly skewed towards agricultural commodity exports, and the leading imports are non-food industrial supplies such as fuel and lubricants, and capital goods. In recent years, growth in imports has outstripped exports, thus leading to deterioration in external trade balance and current account. Kenya's exports to AGOA have largely been limited to only two commodity groups, namely: textiles and apparel and agricultural products. The EAC accounts for about 27 per cent of Kenya's total exports. With implementation of the Constitution of Kenya 2010, Kenya is now integrating external trade as part of foreign policy. In addition, there is great potential for sub-national diplomacy anchored around county governments, including cross-border cooperation.

Financial Services

The financial sector plays a critical role in the development process. In Vision 2030, for example, the sector is expected to drive high levels of savings and financing of Kenya's investment needs. As at 2012, the sector comprised 43 commercial banks, 1 mortgage finance company, 5 representative offices of foreign banks, 8 deposit taking micro-finance institutions, 112 foreign exchange bureaus and 2 credit reference bureaus. In the same period, there were 45 licensed insurance companies and 3 locally incorporated reinsurance companies. Other insurance intermediaries and insurance service providers were 154 licensed insurance brokers, 23 medical insurance providers and 4,205 insurance agents. Other insurance players included 126 investigators, 78 motor assessors, 20 loss adjusters, 2 claims settling agents, 10 risk managers and 26 insurance surveyors. The pension industry had 1,262 retirement benefit schemes with over 1.7 million members, 16 registered fund managers, 26 administrators and 12 custodians. While the Nairobi Securities Exchange (NSE) was the only stock market in Kenya, there were 130 Savings and Credit Cooperative Societies (SACCOs) licensed as deposit takers.

Though the sector continued to witness transformational policy changes in 2012, growth slowed to 6.5 per cent from 7.8 per cent in 2011. Similarly, the sector's contribution to GDP decreased from 6.3 per cent to 5.2 per cent in the same period. Even though the banking sector shows growth in assets, deposits and profitability, the trend in interest rates is off the Medium Term Plan target. The Plan envisioned achieving lower lending rates and higher deposit rates, thereby reducing the interest rate spread to 6 per cent, which currently stands at 11 per cent. The large spread is a serious impediment to expansion and development of financial intermediation because it may discourage potential savers with low returns on deposits, and potential investors with reduced feasible investment opportunities.

In 2012, the stock market performance improved. The NSE 20 share index increased by 29 per cent to close at 4,133.02 points from 3,205.02 points in 2011. Although market capitalization recorded an increase of 46.5 per cent, it is still low when compared to aspirator countries such as Korea, Chile, Malaysia, South Africa and Singapore. Kenya's market capitalization is below 50 per cent of GDP, thus far below the medium term target of 90 per cent.

The emerging policy issues include long-term credit gap and the limited menu of financial instruments in the capital market. Though Kenya's financial sector has a wide range of products, institutions and markets, there are glaring gaps in long-term credit. While commercial banks have not managed to supply long-term capital, the stock market has remained shallow and thin, limiting long-term resource mobilization by firms. Thus, to boost long-term investment growth, deliberate efforts must be made to adequately develop vehicles for mobilizing long-term capital in Kenya. The development finance institutions that the government created as a deliberate effort to fill a development financing gap are still a viable option. The government therefore needs to formulate a strategy towards this end.

The capital market offers a limited menu of financial instruments, mainly equities and bonds. In order to enhance long-term resource mobilization for investment, there is need for diversification of financial instruments in the capital market. This will not only provide investors with more risk diversification opportunities, but it will also foster competition and innovativeness and allow bigger financial investments. Such new products in the market would include derivative securities that are not currently traded in the capital market.

Micro and Small Enterprises

The Micro and Small Enterprise (MSE) sector in Kenya is an important and fast growing sector employing 42 per cent of the working population, and accounting for 75 per cent of all modern establishments in Kenya as at 2011. MSEs dominate in majority of the sectors, including wholesale and retail trade, restaurants, hotels, community and social services, insurance, real estate, business services, manufacturing, agriculture, transport and communication and construction. Interestingly, while the number of employees in MSEs increased between 2010 and 2011, there was a decline with respect to employees in medium and large enterprises. The manufacturing value added contribution made by MSEs also increased, though the contribution is still low, accounting for 14.2 per cent yet two thirds (67%) of manufacturing firms are MSEs. The statistics on tax performance reveal that Pay as You Earn (PAYE) and income tax payments have been increasing over the years. Value Added Tax (VAT) contributions, however, experienced a decline in 2008/09 and 2010/11, which is attributable to the introduction of Turnover tax (TOT), which has been increasing steadily since its implementation.

Informality within the sector is a huge challenge, with statistics revealing that the number of persons operating informally has been increasing over the years, in spite of the licensing reforms that include the introduction of a Single Business Permit. While licensing reforms have ensued, including the introduction of an E-registry to electronically host the licences, multiplicity of licences issued by different regulatory agencies is a key concern. This is further exacerbated by the decentralization of the regulators, who are scattered in different Ministries and different locations. While the E-registry was expected to lower transaction costs associated with obtaining licences, there seems to be limited awareness of this service. It is approximated that 30 per cent of businesses are not aware of the service; majority of those who are aware of it have not used the service. Further licensing changes are expected under the Constitution, which splits licensing roles between the national and county governments. Best practice, however, reveals that decentralizing licensing can lead to increase in licences and consequently increase transaction costs. There is therefore need to institutionalize Regulatory Impact Assessment (RIA) to help the government identify whether a regulation (such as a licence) is needed, what the costs and benefits of the proposed regulation are, and whether there are alternative solutions to regulation. This should ensure that licences are not arbitrarily introduced.

The government should additionally introduce a system where MSEs can access several different licensing agencies, business registration and institutions that administer other statutory rights at one physical location at the county level. Further consideration should be made for the introduction of a single licence that amalgamates all relevant licences. This would reduce transaction costs and may consequently encourage investment due to the reduced costs of starting a business.

Lack of authoritative data is also an outstanding challenge that the government needs to address. Relevant data though frequent surveys would be of great benefit to the sector as it would assist the government in policy and strategy formulation and implementation.

Tourism

Total tourist arrivals declined marginally by 0.3 per cent in 2012 to 1,780,768 tourists compared to 1,785,382 tourists in 2011. Estimated receipts from tourism in 2012 was Ksh 96.02 billion, a 1.92 per cent drop from the Ksh 97.90 billion realized in 2011. Europe is still the main source market for Kenya with a share of 43 per cent, followed by Africa at 24 per cent, America at 13 per cent, Asia at 12 per cent, Middle East at 5 per cent and Oceania at 3 per cent. However, there was a decline in the number of visitors from major European sources such as the UK, Italy and Germany, which could be explained by the economic slowdown in the Eurozone. However, tourist arrivals from Asia increased.

Tourism performance fell below the medium term targets. The government needs to implement strategies to accelerate growth of the sector, including full operationalization of the Tourism Act 2011, increased investment in infrastructure, improved security, implementation of Vision 2030 flagship projects such as development of resort cities, and continued diversification of source markets.

Infrastructure and Economic Services

Infrastructure development is a basic pillar for competitiveness and growth of the economy. It is critical for trade, lowering costs of production and transactions, facilitating flow of materials and information, reducing inequalities and poverty, and enhancing economic capacity. The government is giving greater emphasis on infrastructure development as evidenced through increased budget resource allocation.

Two sub-sectors are key in infrastructure development, namely: water and sanitation and roads. Kenya is considered to be water scarce, with only less than 20 per cent of the country's safe yield of renewable freshwater resources having been exploited. The government's national target is to achieve safe water services coverage of 80 per cent by 2015. National access to piped water is estimated at about 17.9 per cent. About 44 per cent of Kenyans rely on unprotected water sources, mainly made up of streams, lakes, ponds, dams, water vendors, and unprotected wells and springs. There are wide disparities in access to improved water sources. More than half (26) counties score below the national average access rate of 48.5 per cent. Urban areas have a high level of access to improved water sources, estimated at about 53.1 per cent. Access to improved sanitation is also low, with about 21 per cent of rural households using poor faecal disposal methods such as buckets and bush. The sub-sector faces various challenges, including funding for water infrastructure, low budget absorption, water distribution losses, inefficiencies, and poor spatial coverage. The roads sub-sector has also been receiving increased budget resource allocation for construction of new roads, bridges, rehabilitation of roads and periodic maintenance. However, the road network and density and conditions vary across the country, which require to be addressed.

Environment and Natural Resources

The Constitution of Kenya (2010) places high premium on environmental conservation. It emphasizes the role of government in holding the natural resource in trust for the people of Kenya. As such, the government must remain accountable to its people regarding all its functions and operations, and specifically with regard to management of natural resources for the benefit of the country.

It has been observed above that Kenya is a water scarce country with only a per capita renewable water resource of 647m^3. About 50 per cent of the country's water resources are trans-boundary. The water resource is skewed and unevenly distributed, with Tana River, Lake Victoria North and South accounting for 86 per cent of the total water resource. Accurate figures are difficult to obtain, since only 65 per cent of stream flows are monitored. The country's surface water is generally described as both brown and turbid due to contamination from point and non-point pollution, suggesting a link between water pollution and unsustainable land management practices. Non-Revenue Water (NRW) is a big challenge in the sub-sector. Kenya has also suffered degradation of catchment areas due to population pressure and deforestation resulting from destruction of natural vegetation through unsustainable land use practices; lack of proper environmental assessment for development of infrastructure; forest excision for settlement and wood fuel; illegal logging; and human encroachment.

Managing Kenya's forests sustainably is a major challenge especially with the devolved system of governance and, therefore, requires policies that can be adapted to accommodate varying county conditions, and forest product needs over time. The Forest Act 2005 emphasizes the need to institutionalize sustainable management of the forestry sector. Success of this initiative will, to a large extent, depend on availability of up-to-date and accurate inventory data relating to forest areas, growth and yield, and clearly defined modalities of executing the agreements. Appropriate mechanisms for achieving harmonization of the various sectoral policies that touch on forestry should urgently be put in place. Moreover, there are great opportunities for the private sector to invest in the forestry sector in forest-rich counties.

The policies, laws and institutions that presently govern the mineral sector in Kenya need significant reform if the sector is to grow sustainably and contribute to economic development and poverty reduction in the counties. The highest priority must be given to finalizing the Geology, Mining and Mineral Bill (2012), which has remained in draft for some years. Kenya has a maritime boundary dispute with Somalia, in the Indian Ocean waters. This dispute includes the gazetted oil and gas exploration blocks that are located in the disputed area of the offshore Lamu Basin, and resolution of the dispute as soon as possible is needed to avoid resource-fuelled disputes, which are even harder to mediate. The disputed Ilemi triangle between South Sudan and Kenya also lies in the Tertiary Rift Basin stretching over three exploration blocks in that region.

Kenya should develop a Comprehensive *Kenya Natural Resource Charter* based on the Constitution of Kenya 2010 and leverage on good practices globally. Moreover, such a charter should be given the force of law, and adopted by all the 47 county assemblies and endorsed by Parliament to guide the operations of the oil and gas sector, as well as the rest of the extractive industries in Kenya. This will help in ensuring that benefits and costs are shared throughout the whole country in an acceptable manner to avoid tensions and conflicts that have been the bane of such efforts globally.

Medium Term Prospects

The economy registered a growth of 4.6 per cent in 2012, compared to 4.4 per cent in 2011. Growth prospects for 2013 were enhanced by the peaceful general elections of March 2013. Short and medium term growth will largely be determined by successful implementation of the Constitution, including a smooth transition to a devolved government system, regional and global economy performance, macroeconomic stability, security, and successful implementation of key reforms and public expenditure programmes, most of which are outlined in the Medium Term Plan. The economy is projected to grow by 5.3 per cent in 2013, and increase to 6.3 per cent in 2014 and further to 7.1 per cent in 2015.

The Vision 2030 objective in the economic pillar specified a target of economic growth rate of 10 per cent by the year 2012/2013. This can be realized in the medium term given a stable international environment, effective implementation of MTP flagship programmes, and exploitation of full growth potential arising from mineral resources and the infrastructure and construction industry.

Creating an Enabling Environment for Competitive and Sustainable Counties

The theme of the Kenya Economic Report 2013, *Creating an Enabling Environment for Competitive and Sustainable Counties,* is informed by three considerations. First, the investment climate is pivotal to achieving the goals of Kenya's Vision 2030. Second, the Constitution envisages that Kenya's development mode will be anchored on devolved governance structures. Third, an enabling environment is required to address regional disparities in resource endowments, and development and access to infrastructure and other socio-economic services.

Given the transition to a devolved governance system, effective institutions for effective county governments are a key priority. In this regard, an effective Public Finance Management system is pivotal to successful devolution through improved management of public resources and service delivery. Public finance reforms at the county and national levels should be anchored on the Strategy for Public Finance Management Reforms in Kenya 2013-2018. Moreover, there is need to enhance downward and upward accountability, and support capacity building in public finance management.

County governments can leverage limited capacity through partnerships (public-private partnerships) with businesses, community organizations and knowledge institutions in delivering their mandates, especially with regard to infrastructure, agriculture and tourism. However, lack of funding should not be the sole reason for deciding on the PPP option. Other critical considerations should include capacity and administrative costs for management of PPP contracts, transaction costs, and explicit and implicit liabilities imposed on the national and county governments.

Other critical areas for improved investment environment are human capital development, land adjudication, investment in county infrastructure, creating an enabling environment for micro and small enterprises, development of wholesale and retail trade, and investment in natural resources. Overall, human capital development is not only below the Vision 2030 target but there are also large regional disparities. The four counties with the strongest performances are Nairobi, Nyeri, Uashin Gishu and Kericho while the weakest performance is noted in Turkana, Mandera, Tana River and Wajir. Counties need to leverage free primary and day secondary school education to enhance education attainment and also focus more public policy attention to the health sector. Infrastructure development is key for competitiveness. In the water sector, specifically, national and county governments should work closely with water companies to address distribution losses, cost recovery, enhance resource utilization and expand access to water in rural areas. The challenges to be addressed for the road sector include political interference in project implementation, maintenance backlog, local construction capacity, encroachment on road reserves, and mobilization of additional resources. Land is a critical factor of production and, thus, important for overall competitiveness. There is need to resolve land conflicts and disputes, and fast-track adjudication and registration through cost-effective methods as has been used in Rwanda, Ethiopia and Madagascar. There is great potential for the enhanced role of natural resources in Kenya's development following the discovery of oil and other minerals. However, there is need for a firm legal and policy foundation to facilitate efficient exploitation of the resources, and avoid conflicts and inordinate delays as have been experienced in the recent past.

PART I

MACRO AND SOCIO-ECONOMIC PERFORMANCE

This part reviews macroeconomic performance, governance, population dynamics, poverty, labour market, health and education. The analyses covers the period up to 2012 and, where data is available, the review is conducted at both national and county government levels. The analyses and policy recommendations relate to the recent recovery in growth, the new governance framework under the Constitution of Kenya 2010 and the observed disparities across counties in terms of access to various social services and opportunities.

Chapter 1

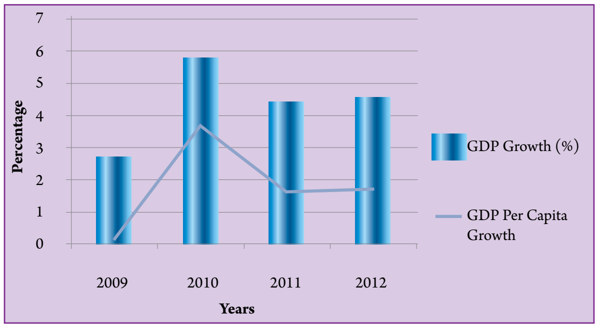
Macroeconomic Performance

1.1 Economic Growth

The Kenyan economy registered improved economic performance in 2012 with an annual growth of 4.6 per cent in GDP compared to 4.4 per cent in 2011. The macroeconomic environment was relatively stable as inflation eased during the year, while the exchange rate stabilized against major foreign currencies. This performance suggests that the economy has continued to weather the challenges of high international oil prices, drought conditions that were experienced in the Horn of Africa, and weak global performance in 2011. In addition, during the last half of 2011, the economy faced risks of macroeconomic instability reflected in high inflation and a weakening of the shilling against other international currencies. The strong performance in 2012 is largely explained by the recovery that started during the second half of the year. Although rains were erratic, some regions received above-normal rains, and thus agriculture grew at 3.8 per cent compared to 1.5 per cent in 2011.

Kenya's real GDP per capita increased by 1.7 per cent from Ksh 38, 941 in 2011 to Ksh 39, 607 in 2012. However, this growth was lower than the 3.7 per cent growth registered in 2010, but marginally above the 1.5 per cent growth in 2011. Kenya's low per capita incomes and growth is linked to structural bottlenecks in the labour market, especially the high share of informal sector jobs and unemployment. The jobs in the informal sector are characterized by low productivity and wages. In this regard, there is need to enhance the quantity of decent jobs. In addition, efforts geared towards increasing the stock of human capital through training and skills development can help increase the potential GDP.

Figure 1.1: GDP growth and GDP per capita (2009-2012)



Data Source: Kenya National Bureau of Statistics (Various), Economic Survey

1.2 Sources of Growth

All the sectors of the economy posted positive growth in 2012. The services sector is the most important source of GDP growth, accounting directly for about 50 per cent of growth. In 2012, the leading sub-sectors were wholesale and retail trade, transport and communication, financial intermediation, and education sector services. These four sub-sectors accounted for about 38.2 per cent of overall growth in GDP. The wholesale and retail sub-sector was the second single largest source of growth after agriculture. While the sector is a major source of employment and growth, it is characterized by a large number of small and micro-enterprises, and informality. However, supermarkets have grown spectacularly by about 32 between 2000 and 2010.

The agriculture sector is the single largest sector of the economy accounting for about one quarter of GDP. About 18 per cent of growth in GDP in 2012 was from the sector, up from 7.5 per cent recorded in 2011. The sector grew by about 3.8 per cent in 2012, compared to 1.5 per cent in 2011. The growth was largely due to relatively better weather conditions. The government is undertaking important reforms in the sector, including legal and institutional reforms, increased allocation of resources towards irrigation, and improved access to inputs, especially fertilizer and seeds.

The industrial sector comprising mining and quarrying, manufacturing, electricity and water supply, and construction, account for about 15 per cent of GDP. Manufacturing was the largest sub-sector accounting for about 9.2 per cent of GDP in 2012. Growth in the manufacturing sector declined to 3.1 per cent in 2012 from 3.4 per cent in 2011. The manufacturing sector suffers from limited value addition and diversification, high cost of inputs and low competitiveness.

The mining and quarrying sub-sector has high potential to contribute to economic growth following the discovery of oil, coal and other minerals. In 2012, the sector grew by 4.1 per cent compared to 7.1 per cent in 2011. Its share in GDP stood at 6.5 per cent in 2012. Exploration has been stepped up following the discovery of oil, gas and other minerals such as titanium and other rare earth minerals. In order to reap maximum potential, both direct and indirect, the government needs to address emerging issues such as land use, benefits sharing between the national and devolved governments and communities, and linkages between the natural resource sector and other sectors of the economy in order to maximize both forward and backward linkages, and to develop a robust legal and institutional framework that will support productive use of proceeds from minerals by enhancing transparency and accountability, while sealing loopholes for rent-seeking. These concerns need to be factored in the Geology, Mining and Minerals Bill 2012 and other existing policy frameworks.

The construction industry grew by 4.8 per cent in 2012 compared to 4.3 per cent in 2011. The sub-sector's contribution to GDP growth was 3.7 per cent in 2012. The sector's potential contribution to growth can be enhanced given recent increased expenditure on infrastructure development, if the government effectively addresses the challenges facing the sector. These include the weak capacity of the local construction industry, which leads to over-reliance on foreign firms and inputs, and poor workmanship and delayed completion of projects (Patroba, 2012).

On the demand side of the economy, growth has largely been driven by domestic demand, mainly private household consumption and investment. The share of private consumption in GDP was 77.3 per cent in 2012, and grew by about 5.5 per cent. The volume of public investment has been growing at a double-digit rate and, as a result, public investment as a share of GDP increased from about 2.3 per cent in 2003 to 4.6 per cent in 2012. The contribution of external demand to GDP growth has been rather muted as growth in volume of Kenya's exports of goods and services has been slower than that of imports. For instance, while real exports of goods and services grew by 4.7 per cent in 2012, imports grew by 12.5 per cent. Kenya relies on low-value primary exports, and imports non-food industrial supplies, fuel and lubricants, and other capital equipment that are high value. This has contributed to the persistent current account deficits.

Table 1.1: GDP growth in the East African region

	2008	2009	2010	2011	2012
Burundi	5.0	3.5	3.8	4.2	4.0
Ethiopia	11.2	10.0	8.0	7.5	7.0
Kenya	1.5	2.7	5.8	4.4	4.6
Rwanda	11.2	4.1	7.2	8.3	7.7
Tanzania	7.4	6.0	7.0	6.4	6.9
Uganda	7.7	7.0	6.1	6.7	2.6

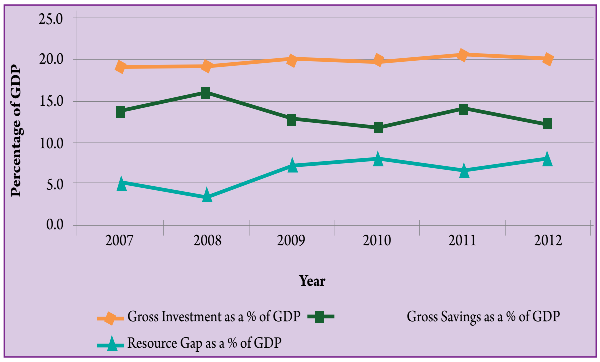
Source: International Monetary Fund - IMF (2013)

Growth in the region has been relatively strong. Rwanda, Ethiopia and Tanzania have been the fastest-growing economies in the region. Kenya's growth rebounded in 2012 supported by improved agricultural performance and macroeconomic stability. The tight monetary policy adopted by the Bank of Uganda partly explains the slowdown in growth in Uganda. Burundi, which is classified as a 'fragile' economy by the IMF, is also lagging behind (Table 1.1). Nevertheless, regional economies are projected to continue growing strongly (IMF, 2013). Kenya can thus exploit its geographical location as a regional hub to spur the growth of the economy through cross-border trade and regional integration.

1.3 Investment and Savings

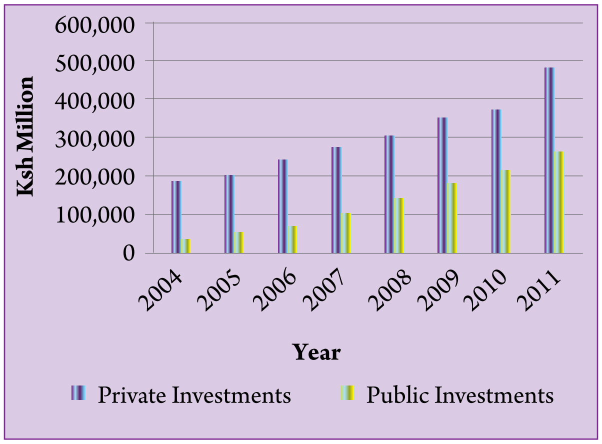
The levels of investment, savings and efficiency (measured by the incremental capital output ratio) are key determinants of the achievable rates of economic growth and employment. The Medium Term Plan 2008-2012 targeted to realize an investment rate of 23.2 per cent in 2008/09, increasing to 24.6 per cent in 2009/10, 27 per cent in 2010/11, 29.7 per cent in 2011/12 and 32.6 per cent in 2012/13. The targets for gross national savings were 16.2 per cent in 2008/09, 18.5 per cent in 2009/10, 21.4 per cent in 2010/11, 24.4 per cent in 2011/12 and 27.7 per cent in 2012/13. However, actual performance shows that these targets for savings and investment were not achieved during the Plan period due to a combination of factors, including internal and external shocks such as the 2007/08 political crisis, the global financial crisis, slow economic growth and slow implementation of planned reforms.

Figure 1.2: Gross investment and savings in Kenya

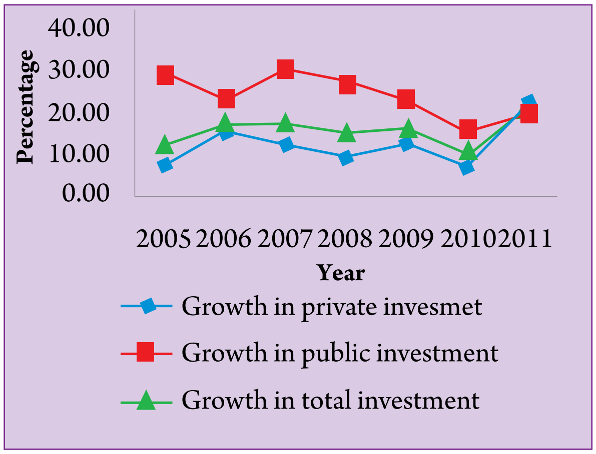


Source: Kenya National Bureau of Statistics - KNBS (2013), Economic Survey

Figure 1.3: Components of investment



Panel A



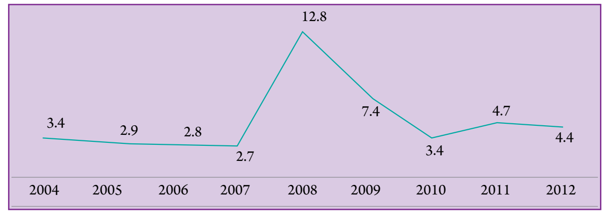
Panel B

Source: Kenya National Bureau of Statistics - KNBS (2012), Economic Survey

Trends in gross savings and investment ratios are shown in Figure 1.3. Gross investment rose from Ksh 624,483 million or 20.5 per cent of GDP in 2011 to Ksh 691,052 million or 20.1 per cent of GDP in 2012. Most of the expansion has been due to investment in transport equipment, which grew by 29.5 per cent, other machinery and equipment (which grew by 14.5%), and buildings and structures (which grew by 10.4%). Gross savings decreased by 2 per cent from Ksh 426,283 million in 2011 to Ksh 419,052 million in 2012. The rate of savings has stagnated and remains far below the medium term targets. For all the years, investment has stayed above savings, generating a resource gap averaging 6.3 per cent between 2007 and 2012.

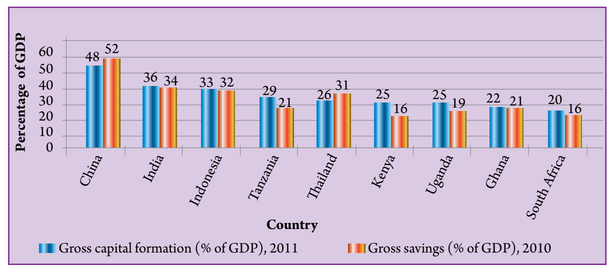
The share of public investment in gross investment has increased. In 2004, public investment share in gross investment was 13.6 per cent, while private investment share was 86.4 per cent. However, by 2012, the relative shares for public and private investment were 23.4 per cent and 76.6 per cent, respectively. This shows that public investment has grown relatively faster than private sector investment.

Figure 1.4: Incremental capital output ratio



Source:

Figure 1.5: Gross capital formation and gross savings in selected countries



Source: World Bank (2012)

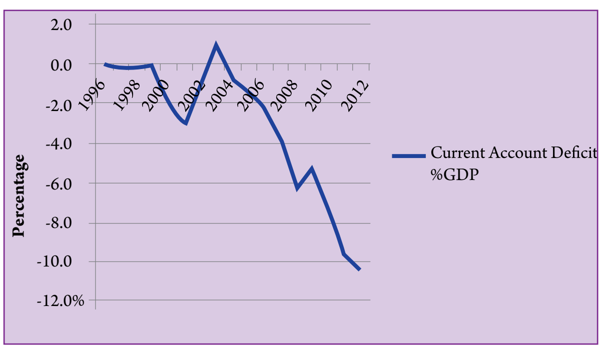
Efficiency of capital as measured by the Incremental Capital Output Ratio (ICOR) shows signs of reduced performance. A trend analysis of ICOR between 2004 and 2012 in Figure 1.4 shows that the ratio has been quite erratic. Between 2004 and 2007, the ratio was on a downward trend, indicating an improvement in investment efficiency. However, the ratio shot to 12.8 in 2008 and to an average of 6.5 between 2008 and 2012, showing a decline in investment efficiency. The 2008 kink is attributed to the slowdown in growth in output due to the adverse effects of post-election disturbances, drought and the global financial crisis.

Comparisons of savings and investments in Kenya with other countries in Figure 1.5 show that the levels existing in Kenya are much lower than those posted by fast-growing economies such as China and India. Out of the nine countries selected, Kenya's gross savings rate of 16 per cent is the lowest. However, Kenya's gross capital formation rate of 25 per cent is within the range of her African counterparts, but far much lower than those existing in fast-growing Asian economies. The nominal rate of investment is lower than real investment rate due to relative prices that favour investment goods.

1.4 External Sector Performance

Kenya's overall external position improved in 2012 to Ksh 123,185 million compared to Ksh 21,847 million registered in 2011. However, the current account position continued to deteriorate, reaching its highest level in two decades. The current account deficit as a percentage of GDP increased from 9.7 per cent in 2011 to 10.4 per cent in 2012. The services account of the current account has remained in surplus due to strong performance in transportation services, tourism and remittances. In the recent past, remittances have recorded strong performance (Figure 1.7). The financial and capital account of balance of payments recorded an improved surplus from Ksh 332, 569 million in 2011 to Ksh 438,038 million in 2012. This strong performance is largely explained by strong performance in long-term and short-term capital inflows, which increased from Ksh 287,866 million in 2011 to Ksh 398,794 million in 2012.

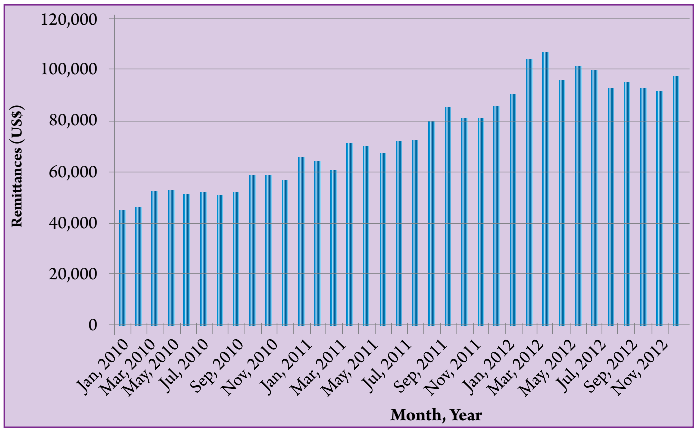
Figure 1.6: Current account deficit as percentage of GDP (1996-2012)



Source: Kenya National Bureau of Statistics – KNBS (2013), Economic Survey

The merchandise account deficit as a percentage of GDP improved from 24.5 per cent in 2011 to 23.0 per cent in 2012. This performance is largely explained by faster increase in merchandise imports of about 5.7 per cent compared to a 1.0 per cent increase in export earnings. There was also deterioration in terms of trade (price of exports relative to price of imports).

Figure 1.7: Diaspora remittances to Kenya (US$)



Source: Central Bank of Kenya, www.central bank.go.ke

Foreign Direct Investment (FDI)

Despite having one of the most diversified economies in the region, Kenya's FDI flows have been consistently lower than those of its neighbours (Table 1.2). In 2012, Tanzania attracted FDIs worth US$ 1.70 billion, focused largely on its offshore gas fields. Uganda received US$ 1.72 billion in investment, while Kenya drew in US$ 259 million. Available data indicate that China is emerging as a key source of foreign direct investment for Kenya.

Table 1.2: FDI inflows for selected years

Year	US$ millions		
	Kenya	Tanzania	Uganda
2008	96	1,383	729
2009	115	953	842
2010	178	1,813	544
2011	335	1,229	894
2012	259	1,706	1,721

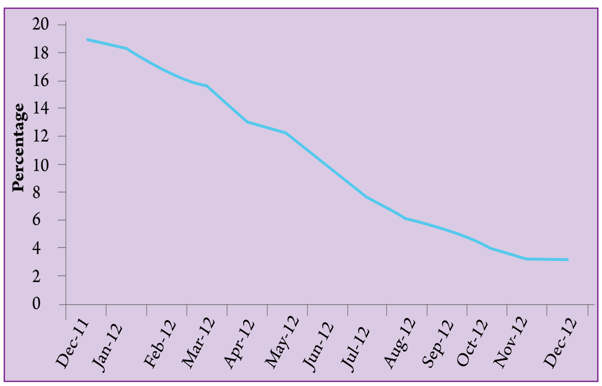
Source: UNCTAD (2013)

In the 1970s, Kenya was one of the most favoured destinations for FDI in East Africa. Kenya is projected to attract about US$ 1.3 billion (approx. Ksh 108 billion) per annum over the next five years in foreign direct investment inflows, and recent oil discoveries may contribute to this remarkably.

1.5 Monetary Policy and Inflation

The key monetary policy objective is to maintain price stability, defined as an overall inflation of the target range of 5 ± 2 per cent. In 2011, the country faced substantial inflationary pressure that was exacerbated by high international oil prices, drought conditions and exchange rate depreciation. As a result, the rate of inflation increased to a peak of 19.72 per cent in November 2011, prompting the Central Bank of Kenya to adopt a tight monetary stance.

Figure 1.8: Overall inflation rate



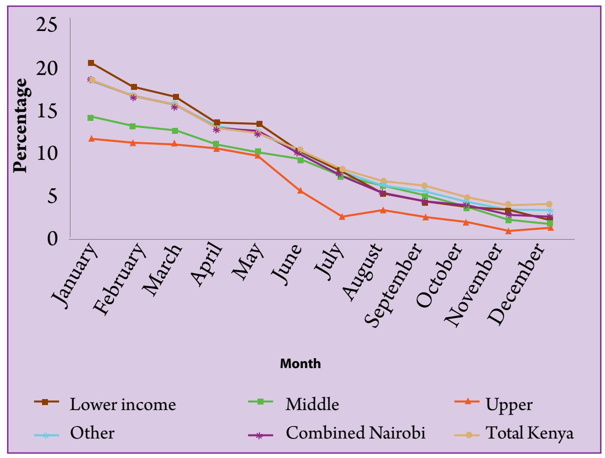
Source: Kenya National Bureau of Statistics – KNBS (2013), Economic Survey

Accordingly, the Central Bank of Kenya raised the Central Bank Rate (CBR) from 6.25 per cent in September 2011 to 18 per cent in December 2011. The tight monetary policy was maintained through July 2012 when the CBR was lowered to 16.5 per cent and further to 13 per cent in August 2012. The easing of the monetary policy was in response to the improving inflation outlook (Figure 1.8).

The inflation rate declined across all the income groups. However, the decline was more significant for the upper and lower income groups, which were below the national average for the country.

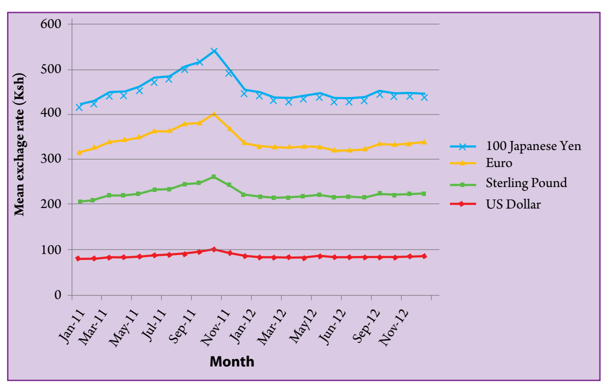
The tight monetary policy stance adopted by the Central Bank of Kenya helped to stabilize the exchange rate. An appreciation of the Kenya shilling against all major currencies was recorded from December 2011 all through the first half of 2012. It is expected that the Central Bank of Kenya will continue pursuing a prudent monetary policy that will support price and exchange rate stability, both in the short and medium term periods.

Figure 1.9: Inflation by income groups



Source: Kenya National Bureau of Statistics – KNBS (2013), Economic Survey

Figure 1.10: Exchange rates of selected major currencies



Source: Central Bank of Kenya (2012), www.centralbank.go.ke/index.php/exchange-rates/

1.6 Fiscal Policy and Performance

Kenya maintained relative fiscal discipline despite pressure from external shocks and political uncertainty due to national elections in 2013. Total revenue collected increased compared to the previous year, and government expenditure was largely in line with priority areas. Public debt to GDP ratio exceeded the 45 per cent ceiling in the debt management strategy. However, the most recent debt sustainability analysis by IMF shows that Kenya continues to face a low risk of external debt distress (IMF, 2013).

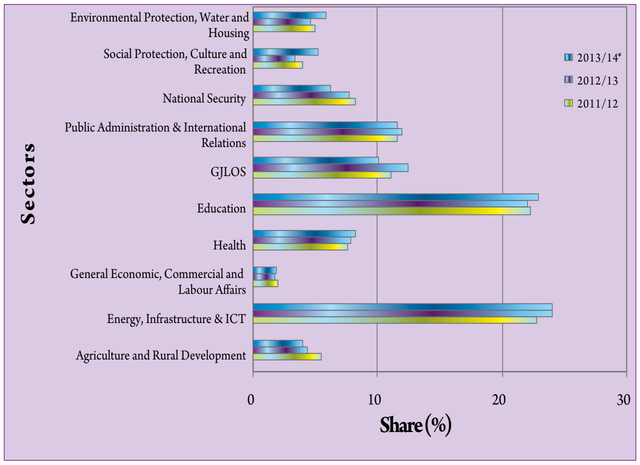
1.6.1 Revenue

Estimated total revenue for 2012/13, including A-I-A, is Ksh 932.4 billion (25.3% of GDP) compared to 748.2 billion over the same period in 2011/12. This represents a 25 per cent growth in total revenue collected. However, according to the Ministry of Finance (2013), by the end of the third quarter (March 2013), total cumulative revenue collection, including A-I-A, was below the target by Ksh 98.2 billion. Most of the poor performance was attributed to a poorer than expected economic environment.

1.6.2 Expenditure

Total government expenditure and net lending as a share of GDP has increased in the last five years as shown in Table 1.3. The current public spending programme is expected to ensure continuity in resource allocation based on prioritized programmes consistent with Vision 2030 and the Medium Term Plan to accelerate growth, poverty reduction and employment creation. In the last three years, public spending priorities have been in social programmes (mainly education) and infrastructure (Figure 1.11). An analysis of the 2012/13 budget reveals that Vision 2030 projects, water supply, police services, Judiciary and Parliament also received large shares.

Figure 1.11: Public expenditure allocations by MTEF sectors, 2011/12-2013/14



*Expenditure Ceiling
Source: Ministry of Finance (2013), Budget Policy Statement

1.6.3 Fiscal deficit

The estimated overall fiscal deficit, excluding grants, in 2012/13 was 308.3 billion (8% of GDP) against a

Table 1.3: Fiscal outturn (% of GDP)

Fiscal Outturn (% of GDP)	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*	2012/13**
Total Revenue	21.63	22.02	21.80	23.86	23.95	22.8	25.3
Revenue	19.72	20.20	20.37	21.92	21.86	21.05	23.05
A-I-A	1.92	1.82	1.43	1.93	2.09	1.75	2.25
Expenditure and net lending	24.33	27.25	26.62	29.50	29.13	28.89	33.46
Recurrent expenditure	17.80	20.55	19.46	20.77	21.25	19.72	21.26
Development expenditure	4.66	6.70	7.16	8.73	7.87	9.16	12.07
Deficit excluding grants (commitment basis)	-2.70	-5.23	-4.82	-5.65	-5.18	-6.08	-8.17
Grants	0.90	1.30	0.81	1.27	0.67	0.47	1.49
Deficit including grants (commitment basis)	-1.78	-3.93	-4.01	-4.38	-4.50	-5.62	-6.68
Deficit including grants (cash basis)	-2.10	0.39	-5.23	-7.09	-4.26	-5.62	-6.64
Financing	2.10	-0.39	5.23	7.09	4.26	5.23	6.64
Foreign financing	-0.14	0.32	1.84	0.93	1.02	3	3.82
Domestic financing	2.24	-0.71	3.39	6.16	3.24	2.23	2.83

Source: Ministry of Finance (2012) Quarterly Budget Review, 2012/13; and Ministry of Finance (2013), Budget Policy Statement targeted deficit of Ksh 250.3 billion (6.5% of GDP) as shown in Table 1.4. This was higher than the balance over the same period in the previous year, which stood at Ksh 199.6 billion or 6 per cent of GDP. When including grants, the estimated fiscal balance was at 6.7 per cent of GDP in 2012/13 compared to 5.6 per cent in 2011/12.

1.6.4 Overall public debt

The annual fiscal deficit arising from the increased expenditures that are not matched by increased revenues has led to an increase in the stock of debt in Kenya. Total stock of debt increased from 1.49 trillion (49.3% of GDP) in 2011 to 1.63 trillion (45.8% of GDP) in 2012. Consequently, debt per capita has continued to increase from Ksh 22,382 in 2007 to 31,837 in 2010 and Ksh 38,523 in 2012 (Table 1.5). However, compared to the previous year, domestic debt declined from 49.3 per cent of GDP to 45.8 per cent of GDP in 2012. This is as a result of significant fiscal consolidation and prudent external borrowing, as well as a strengthened macroeconomic environment. According to the most recent debt sustainability analysis, the biggest risks that Kenya faces to external debt sustainability come from exchange rate shocks and less favourable terms on new public sector loans.

In 2011, Kenya's fiscal performance compared well with countries such as Ghana and India when its revenue collection reached 21 per cent of GDP whereas that of Ghana and India was about 20 per cent and 12 per cent, respectively, in the same year. However, between 2010 and 2011, Kenya's fiscal deficit declined slightly from -5.87 per cent to -4.55 per cent, while that of Ghana declined significantly from -7.17 per cent to -3.96 per cent (Table 1.5).

1.6.5 Fiscal policy and implementation of devolved government

As the country implements the new Constitution, some of the biggest issues are on how the government (at both national and county levels) will manage its finances, especially with regard to fiscal discipline; ensure that resources are allocated according to priorities; and ensure 'value for money'. The main laws that have been enacted and pertain to devolution are the Urban Areas and Cities Act 2011; Transition to Devolved Government 2012; Intergovernmental Relations Act 2012; County Government Act 2012; and the Public Finance Management Act 2012.

The Public Finance Management Act 2012 is particularly key in informing public expenditure management reforms in the devolved system of government. The Act is comprehensive as it consolidates and repeals various laws, including the Government Financial Management Act 2004, the Fiscal Management Act 2009, the National Government Loans Guarantees Act, and the Contingencies Fund and County Emergencies Funds Act. It further provides a framework for the budget process at the national and county levels,

Table 1.4: Central government's public debt, 2007-2012

	2007	2008	2009	2010	2011	2012
Domestic Debt** (ksh milion)	404,706	430,612	518,507	660,268	764,223	858,830
External Debt***(ksh million)	396,564	439,967	540,875	569,138	722,805	774,555
Total debt	801,270	870,579	1,059,382	1,229,406	1,487,028	1,633,385
GDP (ksh million)	1,833,511	2,107,589	2,366,984	2,553,733	3,048,867	3,440,115
Population (million)	35.8	36.7	37.7	38.5	39.5	40.7
Debt per capita	22,381.9	23,721.5	27,011.3	31,836.9	37,759.2	38,523.2
Domestic debt as a % of GDP	22.1	20.4	21.9	25.9	25.3	24.1
External debt as a % of GDP	21.6	20.8	21.1	22.2	23.2	21.7
Total debt as a % of GDP	43.7	41.3	43.0	48.1	49.3	45.8

** Domestic debt is reported on gross basis.
*** Includes public and publicly-guaranteed foreign currency loans, end of period exchange rate.
Source: Kenya National Bureau of Statistics – KNBS (2013), Economic Survey; and Central Bank of Kenya (2012b) Statistical Bulletin

Table 1.5: Cross country fiscal indicators

	Revenue, excluding grants (% of GDP)				Expense (% of GDP)				Cash surplus/deficit (% of GDP)			
Country Name	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
Chile	24.51	19.05	21.51	22.66	18.56	21.46	20.60	20.00	4.51	-4.23	-0.42	1.29
China	11.10	11.92	11.53									
Egypt, Arab Rep.	27.62	26.92	24.78	21.93	30.32	30.08	28.86	29.19	-6.36	-6.56	-7.73	-10.08
Ghana	15.69	15.42	16.63	19.56	20.55	18.03	20.08	21.35	-5.87	-5.65	-7.17	-3.96
India	12.50	11.22	12.88	11.78	16.87	16.56	16.32	15.34	-4.87	-5.42	-3.64	-3.68
Kenya	19.41	19.67	20.31	20.67	21.39	20.87	22.41	22.84	-4.08	-5.32	-5.87	-4.55
Korea, Rep.	24.03	23.05	22.65	23.27	20.60	21.85	19.87	20.39	1.64	0.02	1.65	1.82
Mauritius		23.46	22.76	22.45		21.65	22.66	20.90		0.58	-2.37	-1.15
Singapore	20.74	17.54	17.37	17.90	14.74	14.71	12.85	13.43	7.75	1.61	7.73	9.55
South Africa	31.10	28.62	28.80	29.00	31.45	33.60	32.58	33.21	-0.68	-5.12	-4.05	-4.42
Thailand	20.12	18.63	20.32	21.28	18.24	19.67	18.62	20.61	0.50	-3.05	-0.62	-1.22
Tunisia	29.26	28.56	28.81	31.02	27.40	27.79	27.84	32.77	-0.62	-1.47	-1.36	-3.69
Uganda	13.25	12.58	12.37	16.38	15.35	13.87	16.31	18.96	-1.36	-0.92	-3.93	-3.88

Source: World Bank (2012)

covering key areas such as Treasury functions, Parliamentary oversight; and national and county governments responsibilities with respect to the management and control of public finance. The law also envisages that the national government will provide the support for creation of the necessary institutional structures and capacity building to enable the county governments to function and deliver on their mandates, including reporting on their budgets.

Effective operationalization of the Public Finance Management (PFM) Act requires various regulations that will need to be given priority. They include:

(i) Those relating to fiscal responsibility principles;

(ii) Creation and operation of Autonomous Government Agencies and Semi-Autonomous Government Agencies both at national and county government levels;

(iii) Public sector accounting standards and regulations;

(iv) A framework for issuing debt guarantees for county governments and the medium term debt strategy; and

(v) Treasury Single Account (TSA) regulations and/or implementation strategy.

1.7 Macroeconomic Policy Challenges and Options

Macroeconomic stability should remain a top policy priority for the government. Kenya is facing potential risks emanating from internal and external imbalances. The macroeconomic landscape depicts increasing fiscal pressure arising from the implementation of Medium Term Plan programmes and the Constitution of Kenya 2010, especially with regard to devolution, a growing current account deficit and an investment-savings resource gap.

Moreover, Kenya's economic growth remains vulnerable to external shocks, especially developments in the global economy, regional stability and security, and weather-related supply shocks. On the domestic front, political stability and national cohesion are essential for improved business confidence and policy predictability. Kenyan authorities should develop mechanisms to respond flexibly to macroeconomic risks and shocks.

The Medium Term Plan targets on growth, investment and savings are not being achieved as planned. This under-performance is explained by exogenous shocks related to weather, regional security, global slow-down in growth and political uncertainty in 2007/08. However, there has also been slow implementation of planned programmes such as special economic zones, public-private partnership frameworks and pension reforms. A coordinated effective implementation of government development programmes, especially within the devolved government system, will support effective and timely realization of development goals.

Smooth implementation of the Constitution with regard to transfer of functions and the legal framework for public expenditure management as outlined in the Public Finance Management Act 2012 will help support fiscal discipline, efficient allocation of resources and reduced wastage of public resources. Moreover, Kenya has high potential for increased foreign direct investment and increased contribution of the natural resources sector to economic growth. The enabling legal and governance frameworks will need to be fast-tracked, with the aim of maximizing benefits from resource exploitation for long-term sustainable growth.

Chapter 2

Governance

2.1 Introduction

Kenya's Vision 2030 political pillar aims to realize a democratic political system that is issue-based, and adherence to the rule of law applicable to a modern, market-based economy. These will enhance Kenya's global competitiveness and promote economic development. Good governance is essential in strengthening democracy, promoting effective policy implementation and application of rule of law. Good governance promotes accountability, transparency, efficiency, and rule of law in public institutions at all levels. In addition, it allows for sound and efficient management of human, natural, economic, and financial resources for equitable and sustainable development. Moreover, under good governance, there are clear decision-making procedures at all levels of public offices, citizenry participation in decision-making processes, and the ability to enforce rights and obligations through legal mechanisms. Without proper functioning of institutions of governance (based on the rule of law) that promote social stability and legal certainty, there cannot be any investment and assumption of risk that form the basis of a market economy.

2.2 Governance Performance Indicators

Accountability: All public officials must be accountable or answerable for their actions. Accountability rests largely on the effectiveness of the sanctions and the capacity of accountability institutions to monitor the actions, decisions, and private interests of public officials. Accountability is a key requirement of good governance.

Participation: This is the involvement and ownership by citizens of critical decisions in the development process of the country. Participation could be either direct or through legitimate intermediate institutions or representatives.

Transparency: This entails clarity and openness of decision-making. Transparency thus entails public knowledge of the policies and actions of government, existing regulations and laws, and how they may be accessed by the citizenry. It requires making public accounts verifiable, and official behaviour amenable to scrutiny.

Fairness: Rules should apply equally to everyone in society. A society's well-being depends on ensuring that all its members feel that they have a stake in it and do not feel excluded from the mainstream of society by subjecting everyone to equal treatment before the law.

2.3 Overall Performance

There is scope for improving governance as reflected in the World Bank's (2012) Worldwide Governance

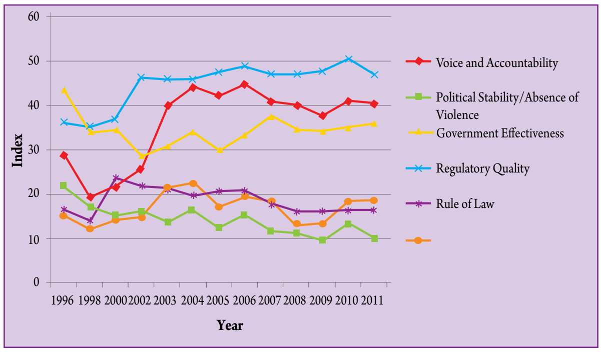
Indicators (Figure 2.1). The indicators comprise six aggregate governance indicators for the period 1996-2011. These are: i) Voice and Accountability; ii) Political Stability and Absence of Violence; iii) Government Effectiveness; iv) Regulatory Quality; v) Rule of Law; and vi) Control of Corruption.

One area where Kenya underperforms is on government effectiveness, scoring 35 per cent, below the 50 per cent average score. Before the enactment of the Constitution of Kenya 2010, the Judiciary was probably the weakest of the three arms of government. The Judiciary was not perceived as independent, and was prone to political manipulation and interference from the Executive. The civil service is expected by law to be efficient and impartial and to act with integrity. Between 1998 and 2002, the effectiveness of the government dropped due to political uncertainty that preceded the 2002 elections. South Africa, Rwanda and Ghana had the best rating in government effectiveness in the last decade (The Ibrahim Index of African Governance, 2012).

Though the performance was below the 50 per cent average, Kenya's score in Regulatory Quality (48%) and Voice and Accountability (50%) was relatively better than was the case for other indicators, and indeed had generally improved between the period 2002 and 2011. Regulatory authority is the power that the Legislature gives a government agency to enforce statutes, to develop regulations that have the force of law, and to assist the public in complying with laws and regulations.

In 2011, Kenya scored below 20 per cent in all the three areas of Rule of Law, Political Stability/Absence of Violence, and Control of Corruption. Notably, the country also experienced a downward trend in these areas between 2006 and 2010. The Rule of Law maxim implies that government decisions are made by applying known legal principles. The poor performance in Rule of Law and Control of Corruption may suggest non-enforcement or selective application of laws.

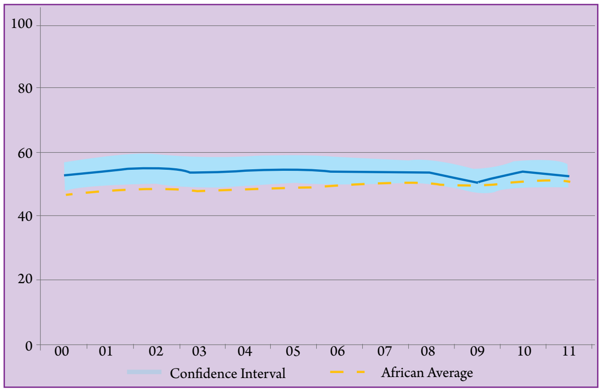
Figure 2.1: Overall government performance



Source: Ibrahim Index of African Governance (2012)

However, based on an aggregated governance score, Kenya's governance performance scores are higher than the continental average (The Mo Ibrahim Index of African Governance, 2012) in the last decade as shown in Figure 2.2.

Figure 2.2: Country governance trend: Composite score



Source: Ibrahim Index of African Governance (2012)

The poor governance performance highlighted above may have contributed to the drop in Kenya's competitiveness as illustrated in Table 2.1.

Table 2.1: Select rankings on the Global Competitive Index

Country	2011-2012	2012-2013
Switzerland	1	1
Singapore	2	2
Finland	4	3
United States	5	7
United Kingdom	10	8
South Africa	50	52
Rwanda	70	63
Botswana	80	79
Ghana	114	103
Kenya	102	106
Egypt	94	107

Source: World Economic Forum (2012)

Kenya's competitiveness ranking fell from position 102 in 2011 to 106 in 2012. Beyond the challenges associated with overall governance, the Global Competitiveness Report 2012-2013 suggests that the decline in Kenya's competitiveness was also as a result of poor scores in key areas such as ethical behaviour of firms, strength of investor protection, integrity of auditing and reporting standards and the protection of minority shareholders.

The prevalence of bribery in Kenya remains high, with likelihood of bribery demand of 29.5 per cent, though the country performs better when compared to Tanzania and Uganda (39.1% and 40.7%, respectively). As Table 2.2 shows, Rwanda remains the least bribery-prone country in the region with an aggregate index of 2.5 per cent followed by Burundi with an index of 18.8 per cent.

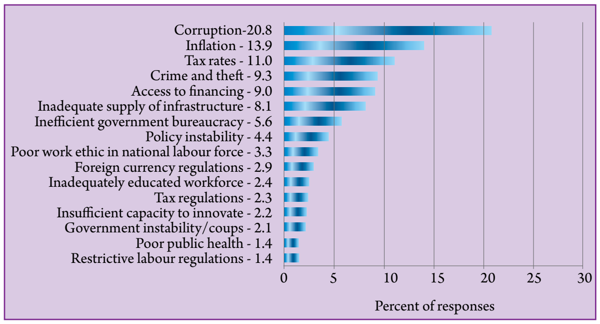
Table 2.2: Likelihood of bribery demand across the East African countries

Rank	Country	Bribery Aggregate
1	Uganda	40.7
2	Tanzania	39.1
3	Kenya	29.5
4	Burundi	18.8
5	Rwanda	2.5

Source: Transparency International (2012)

Corruption restricts investment and holds back economic growth. It undermines programmes designed specifically to aid the vulnerable sections of the society. As Figure 2.3 shows, corruption is the single most important challenge to creation of a predictable and favourable investment environment in Kenya.

Figure 2.3: The most problematic factors for doing business in Kenya



Source: World Economic Forum (2012)

Corruption undermines trust and thus is an investment risk since there are no guarantees about the enforcement of contracts. Consequently, corruption raises transaction costs, creates uncertainty, and is therefore a disincentive to investors.

2.4 The Executive

The Kenyan Executive derives its autonomy from Chapter 9 of the Constitution. The Executive arm of government is responsible for effecting and enforcing laws. With the promulgation of the Constitution in 2010, the Executive was vested with the powers to draft crucial bills to ensure smooth transition to the two-tier government–national and county governments. The Executive has already assented to a number of bills that are necessary for the smooth functioning of county governments. They include the County Governments Act 2012, the Public Service Commission Act 2012, the Transition to Devolved Government Act 2012, the Intergovernment Relations Act 2012, the National Land Commission Act 2012, and the Leadership and Integrity Act 2012. The government is continuing to implement governance reforms in line with the Constitution. For instance, the Executive has overseen the formation of various constitutional commissions. These include the Independent Electoral and Boundaries Commission (IEBC), the Salaries and Remuneration Commission (SRC), and the Judicial Service Commission (JSC).

2.5 The Judiciary

The Constitution lays the basis for the exercise of judicial authority. Article 159 states that "judicial authority is derived from the people and vests in, and shall be exercised by the courts and tribunals established by or under this Constitution." The Judiciary is thus required to administer justice, promote alternative forms of dispute resolution mechanisms (including reconciliation, mediation and traditional dispute resolution mechanisms) while promoting and protecting the purpose and principles of the Constitution. The hierarchy in the Judiciary comprises the Supreme Court, the Court of Appeal, the High Court, the Industrial Court, the Environment and Land Court, and the Subordinate Courts (Magistrates Courts, Kadhis' Courts, Courts Martial and Tribunals).

The Judiciary has historically faced severe capacity gaps in its infrastructure and human resource. Between 2011 and 2012, the Judiciary made efforts to address these challenges. For instance, the number of judges and magistrates increased from 345 in 2008 to 543 in 2012 (KNBS, 2012; Government of Kenya, 2012). The number of judges as of 2011/12 was 104 and the Judicature Act amended in 2012 has stipulated that the number be raised from 70 to 150.

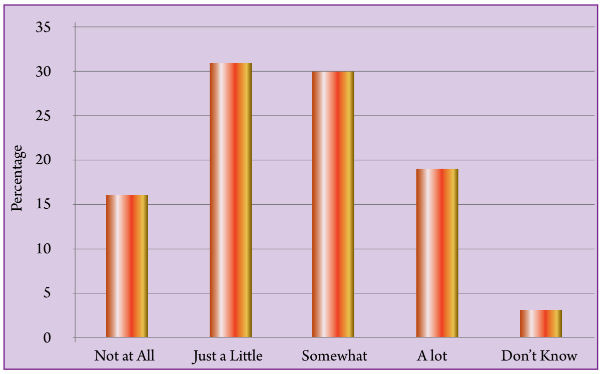
In 2012, the Judicial Service Commission recruited 15 judges of the Land and Environment Court and 12 judges of the Industrial Court. Since the promulgation of the Constitution, the Judiciary has instituted other reforms. They include the establishment of the Ombudsman office, expansion of court infrastructure, launching of mobile courts, acquisition of Land Rovers and application of information communication technology in its services. The Court Fees Calculator is being tested and will be in use to eliminate avenues for corruption. In addition, *faini chap chap* (mobile fines payment) has been introduced and will help minimize graft (Government of Kenya, 2012).

2.6 The Legislature

Kenya's Legislature (Parliament) derives its powers and authority from Chapter 8 of the Constitution, which envisions a Bicameral Legislature (two Houses) with representatives elected to either the Senate or the National Assembly. The Senate has 68 members. These comprise 47 members, each elected by the registered voters of the 47 counties, with each county constituting a single member constituency. There are also 16 women members nominated by political parties according to their proportion of members of the Senate; two members, one man and one woman, representing the youth; two members, one man and one woman, representing persons with disabilities; and the Speaker, who is an ex-officio member. The National Assembly has 350 members composed of elected representatives from 290 constituencies, 47 women elected by the registered voters of the counties, 12 members nominated by political parties according to their proportion of members of the National Assembly to represent special interest groups, and the Speaker, who is an ex-officio member.

Figure 2.4 shows that less than 40 per cent of Kenyans have trust in the National Assembly. This could be a pointer to the fact that Kenya's National Assembly is ineffective in its legislative work and also in safeguarding the interests and rights of citizens.

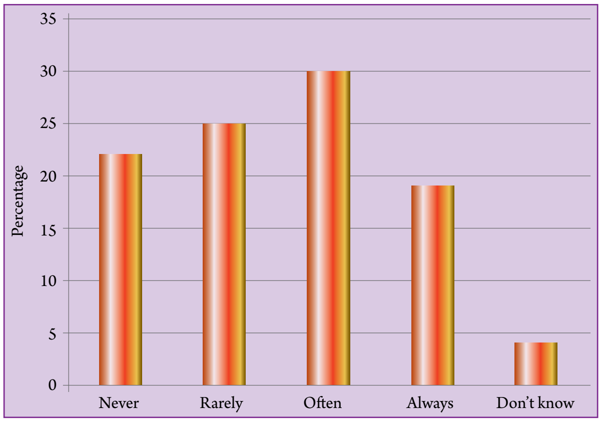
Figure 2.4: Public trust in Kenya's Parliament/ National Assembly (%)



Source: Afrobarometer (2012)

It is also worth noting that the performance of Kenya's Legislature has a public approval rating of below 50 per cent (Figure 2.5). Members of the National Assembly have often been accused of clamouring for higher pay at the expense of their legislative performance and constitutional mandate. This is because the quality of legislative bills passed in the house has a direct impact on the quality of life of citizens.

Figure 2.5: Performance of Members of Parliament/National Assembly representatives (%)



Source: Afrobarometer (2012)

It can be argued that lower public trust and performance of the Legislature are related (See Figure 2.4 and Figure 2.5). However, with the two-tier Legislature (national and county levels), it is expected that the level of public trust in the Legislature will increase as the Constitution places accountability and citizen participation at the centre of governance.

On equal gender participation, though the number of female legislators has improved since Independence, the rate is less than satisfactory (Table 2.3).

Table 2.3: Women representation and participation in Kenya's Parliament: 1st to 10th Parliament

Parlia-ment	Pe-riod	Total No. of Constit-uencies	No. of Women elected	Avail-able slots for nomina-tion	No. of women nomi-nated
1st	1963-1969	158	0	12	0
2nd	1969-1974	158	1	12	1
3rd	1974-1979	158	4	12	2
4th	1979-1983	158	5	12	1
5th	1983-1988	158	2	12	1
6th	1988-1992	188	2	12	0
7th	1992-1997	188	6	12	1
8th	1997-2002	210	4	12	5
9th	2002-2007	210	10	12	8
10th	2008-2012	210	16	12	6

Source: Kihoro (2007)

According to Article 81(b) of the Constitution, "not more than two-thirds of the members of elective public bodies shall be of the same gender." This implies that at least 117 Members of Parliament would have to be female or male if women made up the majority in Parliament. However, in December 2012, the Supreme Court of Kenya ruled that the one-third gender representation rule is not achievable in the March 2013 elections, but will be progressively implemented to be fully realized by August 2015.

2.7 Policy Issues and Options

Though the country has recorded improvement in the Judiciary, Executive and Legislature, timely implementation of the Constitution is central to improving governance in Kenya. Overall, holding credible elections, handling of internal and external security threats, management and equitable allocation of public resources, and improving social cohesion lay the foundation for improved governance in Kenya

2.7.1 The Executive

Political and ethnic tensions still characterize the Kenyan society and can be a challenge to government efforts in addressing excessive bureaucracy, red tape and inadequate capacity building within the civil service. The culture of embracing institutional order needs to be cultivated through, say, civil education, so that institutions such as the National Cohesion and Integration Commission (NCIC) and the Ethics and Anti-Corruption Commission (EACC) can play their rightful roles. It is important to strengthen the National Police Service Commission (NPSC) and the Independent Policing Oversight Authority (IPOA) for proper enforcement of the law, and also the Kenya School of Government to enhance capacity building in the civil service.

2.7.2 The Legislature

A breakdown in democratic ideals has led to the creation of ethnic based political parties that are not issue-based. This undermines democratic governance as parties are mainly ethnic-based and will only address ethnic-based issues. The two-tier and Bicameral Legislature has the potential to improve governance at national and county levels, given more inclusiveness in governance structures. The challenge is the capacity of both leadership and citizenry in internalizing the mechanisms that make devolution work. There is urgent need to integrate qualified staff in executive committees both at national and county levels. Counties will need technical teams similar to the Parliament Budget Office to improve participation in the budget process at county level.

2.7.3 The Judiciary

While the Judicial Service Commission (JSC) has initiated several reforms in the Judiciary, more needs to be done especially in capacity building to address the shortage of magistrates and judges in the Judiciary. The Judiciary should address the following areas:

- Training and staff development: To address the shortages of judicial staff, including judges, magistrates, paralegals and court administrators, there should be more collaboration with teaching institutions, such as universities, to increase training opportunities.

- Court infrastructure: With a devolved governance system, the Judiciary has also to devolve its services up to the county level by building more court stations, especially magistrates' courts. This has budget implications, and more Treasury allocation and Appropriation-in-Aid options should be explored. The implementation of mobile courts to serve areas where physical infrastructure is lean should be fast-tracked. The Judiciary should fast-track the efforts of rationalizing more budget allocation for recruitment and construction of court premises.

- Public trust and confidence: The Judiciary ought to ensure that public trust and confidence in this relevant institution is restored. Case backlogs constitute the single most important source of public frustration with the Judiciary. To this end, the Judiciary should explore the option of Alternative Dispute Resolution Mechanisms and enforce more independence in judicial decisions. Further, the Judiciary Ombudsperson should be swift in receiving and investigating complaints against judicial officers by the public, especially if it has to do with delay of cases, graft and general misconduct of judicial officers. The Judges and Magistrates Vetting Board should expedite its mandate so that only judges and magistrates of integrity remain in office.

Chapter 3

Poverty, Inequality and Population Growth

3.1 Introduction

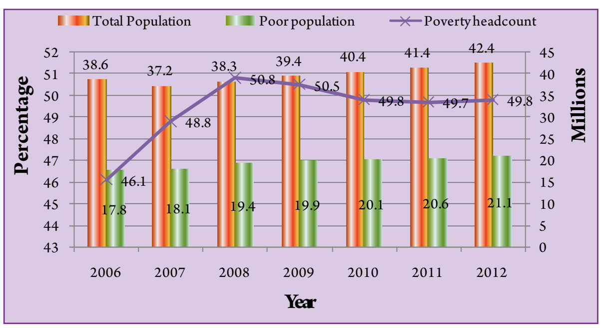
Poverty and population dynamics, including changes in population growth rates, age structure and distribution are closely linked to national and global development challenges. Consequently, for the country to effectively plan for its people, including planning for service delivery, it is important to understand the population-poverty nexus and implications of demographic changes. For instance, population issues form an integral part of the development agenda from a two-pronged perspective: a) evolving population dynamics, including changing population structures and distributions, and b) access to reproductive health and protection of reproductive rights, because they represent a critical challenge for achieving a dignified human development and well-being for all. This Chapter focuses on poverty, inequality and population dynamics and related policy implications.

3.2 Poverty and Population Growth

During the 2005 World Summit, the international community reaffirmed its commitment to reduce by half the number of people living in extreme poverty by 2015. This, among other targets, constitutes the Millennium Development Goals (MDGs), whose ultimate aim is to attack the root causes of poverty using a multidimensional approach. The global population of 7 billion is projected to rise to 9.3 billion by the year 2050. It is estimated that a huge proportion of the population will be accounted for by the developing countries. Specifically, nearly all of the net increase will be from urban areas where poverty is rising very fast. High fertility rates and rapid population growth are not conducive for sustainable economic growth and development. Managing fertility rates and investing in the health and education of people is crucial. Given fewer dependants (children and older people) relative to a larger healthy and working age population, it is possible for a country to realize economic savings and high investments, which could spur economic growth and reduce poverty.

The fight against poverty remains a top priority on Kenya's development agenda. According to Kenya Vision 2030, the government commits to the realization of MDGs and elimination of poverty by 2030. Given the multidimensional nature of poverty, there is no single channel of reducing poverty. However, the ultimate goal is to reduce the number of people living in poverty. Previous literature shows that low income is one of the most important correlates of poverty that defines the poor. Studies that are more recent have used the Multidimensional Poverty Index to explain poverty. Poverty profiles have also helped to explain various dimensions of poverty. As shown in Figure 3.1, the number of people falling into poverty has increased annually and is projected to rise for as long as poverty persists. For instance, in 2007, the number of poor people in the Kenyan population was estimated at 18.2 million, rising to 19.5 million and later 20.1 million in 2008 and 2010, respectively (Figure 3.1). The rise in the number of people falling into poverty is as a result of the violence that resulted from the disputed 2007 elections, and low and un-redistributive economic growth.

Figure 3.1: Population and poverty trends, 2006 -2012

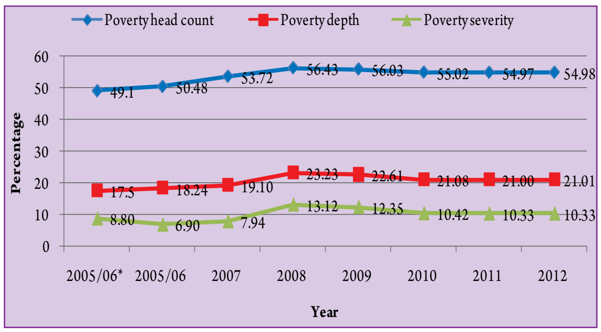


Source: KIPPRA computations

Further, during the period 2007-2012, the economy faced various shocks resulting in periods of high inflation and slow growth, whose implication is that overall poverty increased from 48.8 per cent in 2007 to 50.8 per cent in 2008, before it declined marginally to 49.8 per cent in 2012. Throughout the period under review, rural poverty remained high above urban poverty. The proportion of rural poor people in the total population accounted for about 56.4 per cent in 2008, while urban population accounted for only 36.2 per cent of the population. Since then, rural poverty has only declined marginally to 55.0 per cent while urban poverty was estimated at 35.5 per cent in 2012.

In terms of the poverty gap, poor people in the rural areas have, on average, much lower incomes compared to the poverty line, and their income distribution does not seem to change much over the years. This means that the poor have remained poor, while the rich have retained their riches. Moreover, the degree of inequality among the rural poor population is, on average, the same as the degree of inequality in the urban poor; that is about 10 per cent between 2008 and 2012.

Figure 3.2: Rural poverty, 2005-2012

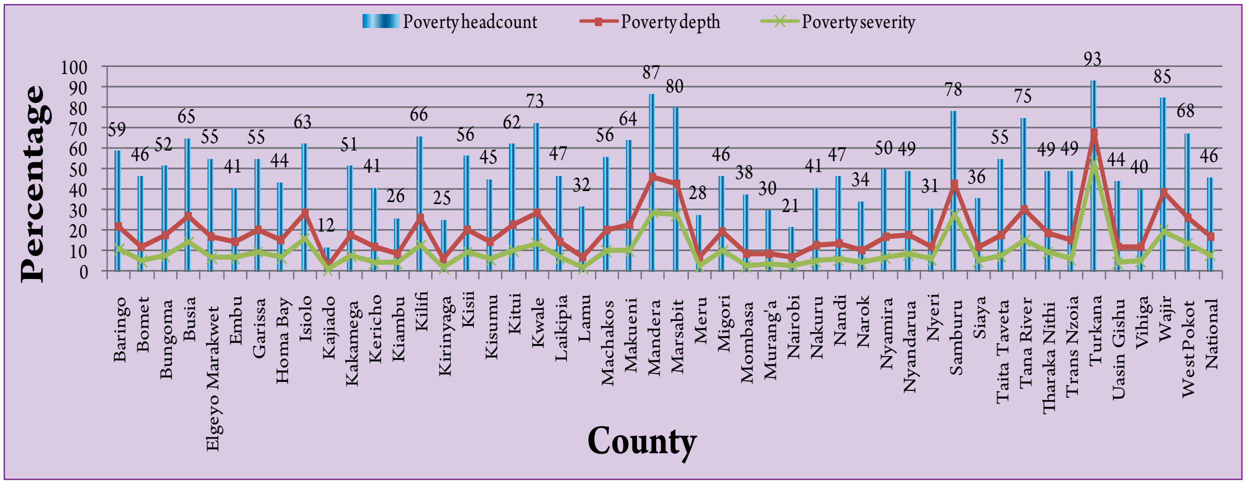


Source: Authors' projections based on KIHBS 2005/06; Note: 2005/06* Actual from survey data

The magnitude of poverty varies from one county to another (Figure 3.3). Moreover, in Kenya, some counties have much higher poverty compared to others. Kitui, Marsabit, Mandera, Samburu, Tana River, Turkana and West Pokot, for instance, have poverty levels above 70 per cent. These are counties characterized by harsh weather conditions. They also occupy vast land areas with low population density. In such regions, it is very costly to deliver some of the essential services such as education and health. In most cases, the people there live in isolation and tend to lag behind in economic development. These, among others, are some of the counties that need special consideration when resources are being shared across the counties.

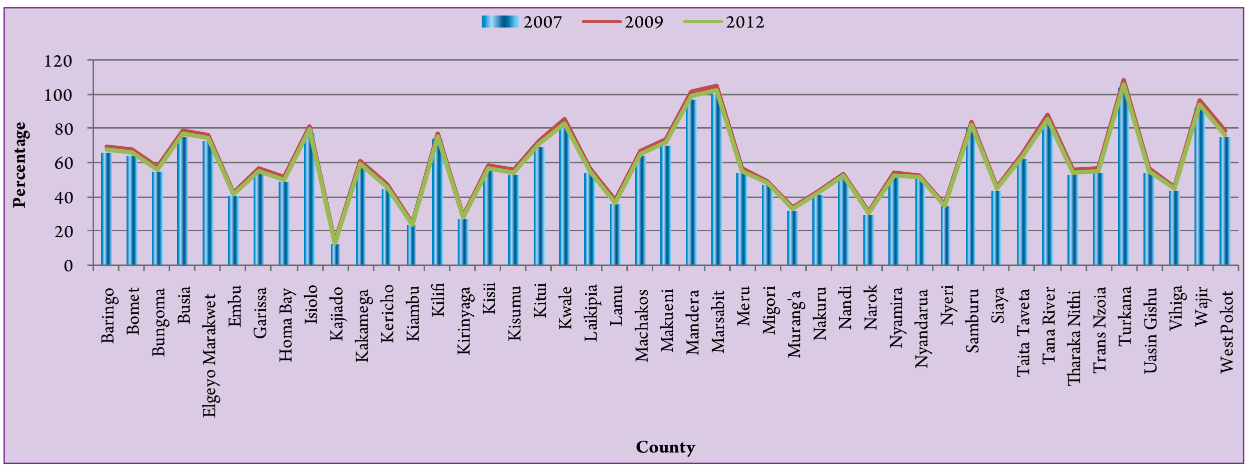
The level of rural poverty is not uniform across all the counties. It is highest in Turkana, Marsabit, Mandera and Wajir, and lowest in Kajiado, Kiambu, Kirinyaga, Narok, Nyeri and Murang'a (Figure 3.4). Despite remarkable progress in the fight against poverty, some counties still lag behind others. A

Figure 3.3: National poverty profile by county, 2005/2006



Source: KIHBS 2005/6

Figure 3.4: Rural poverty head count by county, 2007-2012



Source: Authors' projections based on KIHBS 2005/6

multidimensional approach to poverty shows that counties with highest poverty levels also lack access to a wide range of resources.

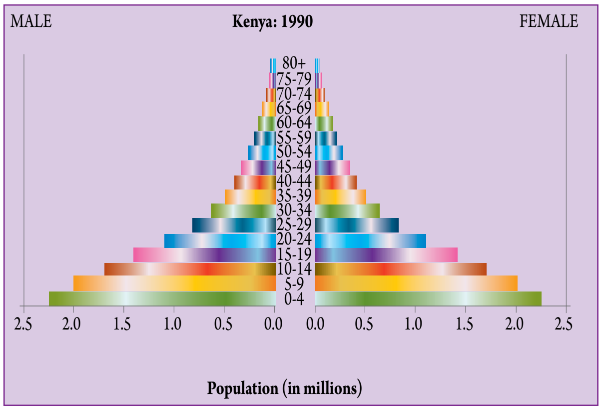
In particular, they have very poor infrastructure and, therefore, have limited access to facilities such as schools, health centres and markets. Another possible explanation is that spending in these counties does not target the sectors where the poor are concentrated. In the spirit of devolution, there is need for equitable fiscal resource allocation at both national and county levels. Priority should be given to sectors that will help improve human resource development and also create job opportunities for the unemployed.

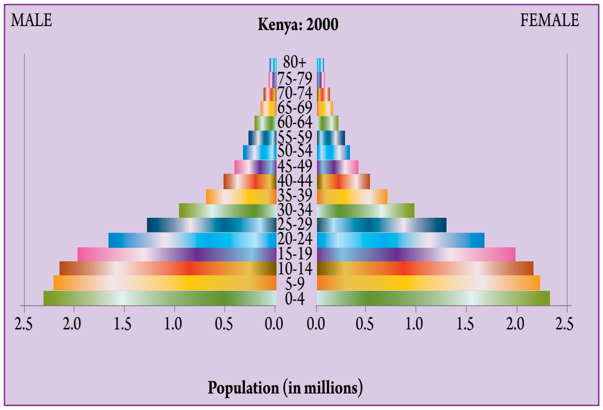
3.3 Demographic Transition

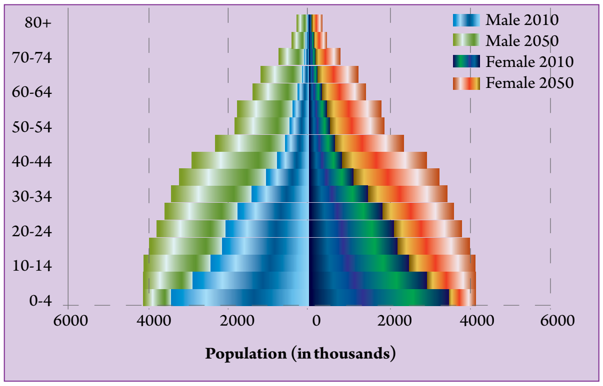
The transition in the population age structure is important for economic growth and development of a country. The transition is a major determinant of the population in school, working or retired. If opportunities for job creation are realized, more jobs will be created for the working age population, and the demographic bonus would result in higher productivity, savings and economic growth. In East Asia where poverty has dropped dramatically, this demographic dividend is estimated to account for about one third of the region's unprecedented growth between 1965 and 1990. A demographic dividend, based on falling fertility rates, could help boost Kenya's economic growth. Feasible policy options towards this end include reviewing family planning policies, deepening education on various family planning methods, curbing early marriages, and ensuring the policy of compulsory primary and secondary education is fully implemented. Other interventions include improving health and nutrition and ensuring economic development as more women enter income-generating activities away from home, and hence low number of childbirths. Educated women are also more informed on family planning methods due to exposure from government-steered family planning campaigns. Furthermore, they stay longer in school, thus delay marriage and child bearing, which eventually leads to fewer children. These and other factors have seen Kenya experience a decline in the number of children per family from 8.1 in 1978 to 4.6 in 2008, and are projected to decline to 2.4 by 2050 (Fengler, 2010).

The composition and structure of Kenya's population has also been changing (Figure 3.5). Some age brackets have larger proportionate population increases than others. In the last three decades, it is observed that more people seem to survive to old age, with declining number of young children. Greatest increases seem to occur among the youth in the 15-35 years age bracket. Depending on how the youth bulge is managed, it is likely to be either a blessing or a curse.

Figure 3.5: Kenya population pyramids for 1990, 2000 and 2010





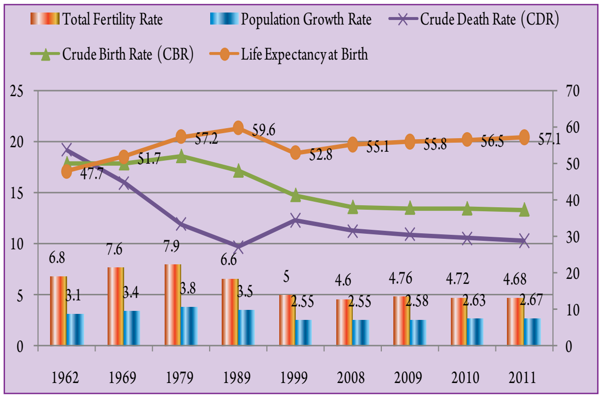


Source: Republic of Kenya (2010); Fengler (2010)

The observed population structure is a result of changes in the birth rate and death rate over time. Birth and mortality rates are key indicators of population growth. Birth rate is a factor of fertility rate, which is a function of, among other factors, nutrition, culture (early marriages, values and beliefs as well as sexual activeness), health and family planning services available (contraception and post-partum fecundity), women's education and work engagements. Mortality rate is a function of, among other factors, income, health facilities and services such as vaccination and availability of medicine, nutrition, education (especially women's education), communication network, habits such as smoking, frequency of natural calamities and disaster management abilities in a country. Culture and religion can also influence mortality, for example in cases where seeking conventional medical services is against cultural or religious beliefs, or where certain retrogressive practices such as Female Genital Mutilation (FGM) increase cases of maternal mortality (Addio and d'Ercole, 2005; Cutler et al., 2006).

The changes in population age structure that accompany fertility decline are important (Mwabu et al., 2013). Life expectancy increased rapidly between 1962 and 1989 (Figure 3.6). In 1989, the gap between birth rate and death rate was highest, meaning that more people survived. However, these gains did not last. In less than a decade, convergence between the death rates and birth rates was witnessed. When this happens, it means that population growth slows down. The group of individuals born during the period when there is a big gap between birth rate and death rates are important for demographic transition. When they begin to enter the working age and a smaller number of infants are born after them, the ratio of working age to non-working age population increases.

Figure 3.6: Selected population indicators, 1962-2011



Source: NCPD (2011) and World Bank Databank, 2012

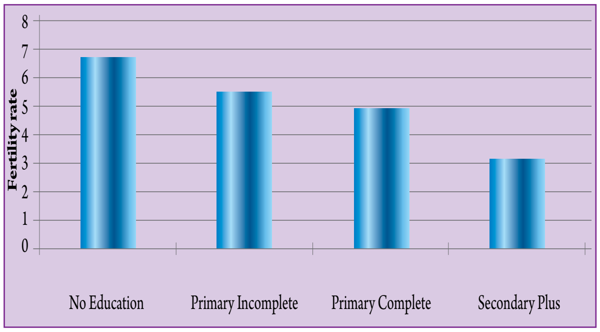
The increase in the ratio has the potential to spur economic growth. This potential is called the demographic dividend.

Although family planning has been practised in Kenya since the establishment of the Family Planning Association of Kenya (FPAK) in 1955, it did not realize major success until the late 1970s when the government included family planning in its five-year development plan (1975-1979) (Toroitich-Ruto, nd), which led to reduced fertility from 7.9 in 1979 to 4.7 in 2011.

Fertility rates in urban areas (2.9 lifetime births per woman) are much lower compared to those in rural areas (5.2 lifetime births per woman). This could be attributed to increase in contraceptive use and the effects of urbanization. As societal values change, women no longer wish to bear a large number of children as a direct impact of increased education levels and participation in the national economy. The cost of raising children is also higher in urban areas as opposed to rural areas.

Highly educated women tend to bear fewer children as opposed to less educated women. Education on family planning and contraception has been embraced by several women. The fertility rate amongst women with secondary school education and above was 3.1, while that amongst women with no education was 6.7 (Figure 3.7).

Figure 3.7: Education attainment and total fertility rates



Source: Government of Kenya, 2010

In 2011, Kenya's population was estimated at 41.6 million. As at 2009, the population was growing at a rate of 2.44 per cent per annum, which compares well with other African countries, except Ghana whose population growth rate is estimated at 1.79 per cent per annum. About 42 per cent of the Kenyan population falls within the 0-14 years' bracket. At the provincial level, North Eastern Province has the largest proportion, with 51.7 per cent of the population under 15 years. Nairobi and Central provinces have the lowest proportion of

Table 3.1: Population, growth rate and population composition for selected countries

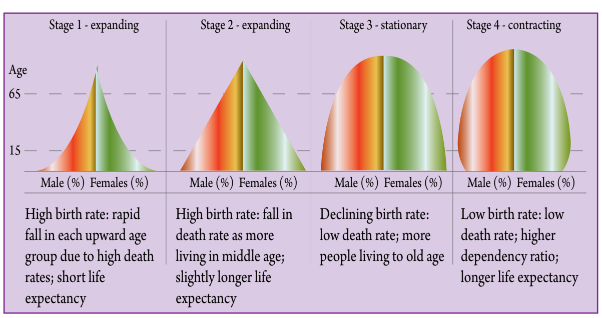
Country	Total Population, 2011*	Average Annual Population Growth Rate (%)	Population Age Composition, %, 2011		
			Ages 0-14	15-64	65+
Uganda	35,873,253	3.58	49.9	48.1	2.1
Rwanda	11,689,696	2.75	42.9	54.7	2.4
Nigeria	170,123,740	2.55	40.9	55.9	3.1
Ghana	25,241,998	1.79	36.5	60.0	3.6
Kenya	**41,613,341**	**2.44**	**42.2**	**55.1**	**2.7**
Malaysia	29,179,952	1.54	29.6	65.4	5.0
South Africa	48,810,427	(0.41)	28.5	65.8	5.7
Indonesia	248,216,193	1.04	27.3	66.5	6.1
Germany	81,305,856	(0.20)	13.3	66.1	20.6

Source: World Bank (2012)

youth, 30.3 per cent and 36.0 per cent, respectively. In the middle-income countries such as Malaysia, population transition is at an advanced stage, characterized by a fall in the level of dependence. For Malaysia, the proportion of the population falling between the 15-64 age groups is 65 per cent, while the proportion under 14 and over 65 is 29.6 per cent and 5 per cent, respectively.

When Kenya is compared to the general demographic transition models (Figure 3.8), the country is in the second stage but approaching the third stage of demographic transition. This is characterized by declining birth and mortality rates, with birth rate still higher than mortality rate and hence the increasing 'youth bulge'.

Figure 3.8: Stages of demographic transition



Source: National Council of Churches of Kenya-NCCK (2012)

Demographic changes in the past decades have also led to a high youthful population in Kenya.

Over the past decade, the rate of Kenya's fertility decline has slowed down considerably, and the share of the working age population has barely expanded (Mwabu et al., 2013). If the current pace of fertility decline accelerates, and if Kenya's youthful workers can find productive employment to support their families and save for the future, then Kenya will enjoy a demographic dividend, raising the current standard of living and stimulating economic growth.

According to Mwabu et al. (2013), if resources generated by this first demographic dividend are invested in physical capital and children's education and health, then Kenya may achieve a second demographic dividend that will boost economic growth over a longer period of time. The magnitude of the first dividend depends largely on the speed of fertility decline and on whether Kenya's huge youthful population can earn adequate labour income. Similarly, the magnitude of the second dividend will depend on how the savings from the previous dividend are invested. This means that the most critical thing to do is to make the most productive use of the first dividend in order to raise current standards of living and increase investments in human and physical capital.

3.4 Dependency Ratio, Poverty and Urbanization

Overall, population dynamics have implications on the economy. For instance, the percentage of the working population has been increasing, while age dependency ratio (the proportion of the population below 15 and above 64) has been declining (Table 3.2).

Table 3.2: Dependency ratio and working population

Year	Age Dependency Ratio			% of Working Population
	<15 and >64	<15	>64	
2002	86.33	81.1	5.2	53.67
2003	85.17	80.0	5.2	54.01
2004	84.20	79.1	5.1	54.29
2005	83.46	78.4	5.1	54.51
2006	82.92	77.9	5.0	54.67
2007	82.58	77.6	4.9	54.77
2008	82.37	77.5	4.9	54.83
2009	82.25	77.4	4.8	54.87
2010	82.18	77.3	4.8	54.89
2011	82.14	77.3	4.8	54.90

Source: World Bank Databank (2012)

This trend was experienced by developed countries in their path to development. In these countries, the larger working population has fewer dependants to support, leaving more for savings and investment. They also spend less time attending to dependants and this saved time may be invested in income generation or leisure, both of which are likely to have a positive impact on productivity.

Table 3.3 shows the dependency ratio by province as well as by urban and rural areas. Rural areas recorded higher dependency ratio of 84.6 compared to urban areas' 57.1. This is mostly because a large component of urban population comprises working couples who tend to have smaller families, as well as youth migrants, thus leaving behind older parents and younger siblings in the rural areas. In addition to older people retiring to the rural areas, HIV-orphaned children mostly go back to their rural grandparents, thus increasing the rural dependency ratio.

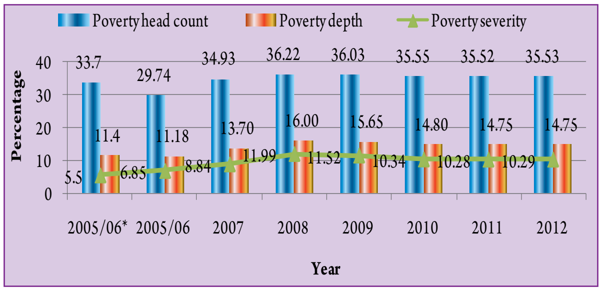
Table 3.3: Dependency ratio by region in 2005/06

Region	Ratio	Region	Ratio
Nairobi	50.6	Nyanza	79.4
Central	66.0	Rift Valley	80.1
Coast	75.5	Western	88.9
Eastern	79.0	Urban	57.1
North Eastern	118.7	Rural	84.6
Kenya	76.8		

Source: National Council for Population and Development - NCPD (2011)

Urbanization has impacted negatively on the urban poor. The urban poor are, on average, about 15 per cent below the poverty line (Figure 3.9).

Figure 3.9: Urban poverty profile

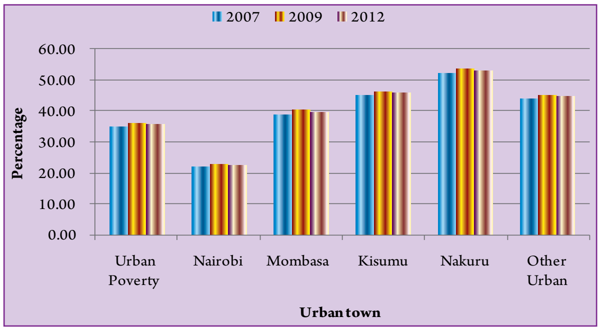


Source: Authors' projections based on KIHBS 2005/06; Note 2005/06* KNBS computations

This means that, on average, the amount of resources required to lift an urban poor person up to the poverty line is less than the resources required to lift a rural poor individual. An analysis of urban poverty shows that poverty is high in all major urban towns except Nairobi (Figure 3.10).

Urbanization brings other demographic challenges, such as concentration of a huge chunk of the population growth in low-income neighbourhoods. According to UNHABITAT statistics, in 1990, Kenya had an estimated urban population of 6 million, with 4 million living in slums. By 2001, the urban population was estimated to have reached 11 million, with 8 million living in slums. About 60 per cent of Nairobi's population lives in slums, occupying only 5 per cent of the land (UNHABITAT, 2008).

Figure 3.10: Urban poverty head count, 2007-2012



Source: Authors' projections based on KIHBS 2005/06

Nearly 50 per cent of the global population is living in urban areas. Kenya's urban population is growing at 4 per cent per annum. While it is easier to provide amenities such as water, sanitation and infrastructure to people living closer together, urbanization, if not well managed, can have a negative impact on sustainable development. According to UNFPA, fertility rates are lower in urban areas, yet most of the global population growth will be in cities, particularly small towns, most of which have no capacity to handle this population. Table 3.4 shows the degree of urbanization of 20 selected countries across the globe. Kenya is above 30 per cent in urbanization compared to Singapore at 100 per cent urban, Germany at 73 per cent urban, while China and Nigeria are at 51 per cent. Uganda and Burundi are predominantly rural with 15 per cent and 10 per cent urbanization levels, respectively.

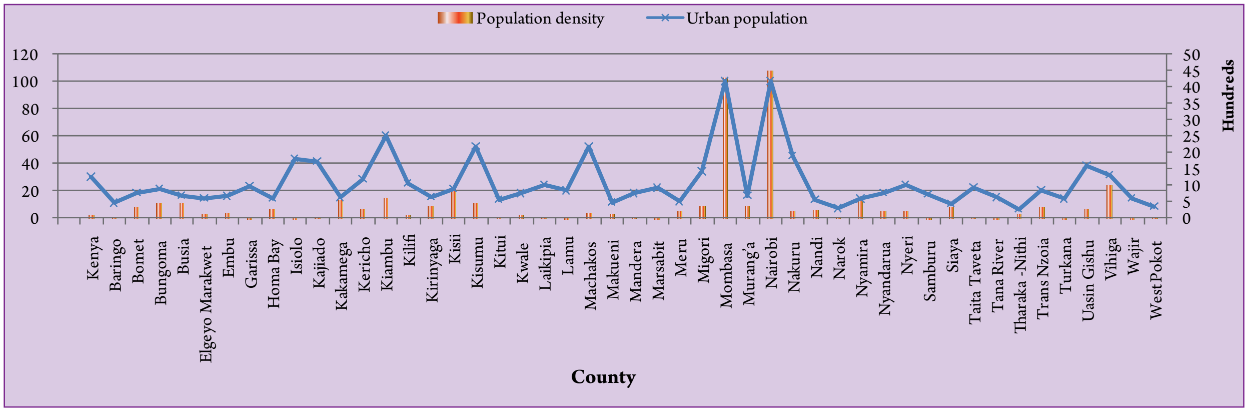
Table 3.4: Degree of urbanization in 2012

S/No.	Country	Urban Population (% of Total)	S/No.	Country	Urban Population (% of Total)
1	Singapore	100	11	Malaysia	63
2	Kuwait	98	12	China	51
3	Israel	92	13	Nigeria	51
4	Argentina	91	14	Ghana	44
5	Chile	87	15	Namibia	39
6	Brazil	84	16	Kenya	32
7	Australia	82	17	India	31
8	Canada	80	18	Botswana	24
9	Germany	73	19	Uganda	15
10	Tunisia	66	20	Burundi	10

Source: US Global Health Policy (2012)

Figure 3.11 shows Kenya's population by county and degree of urbanization. The country's urban population growth is mainly from rural-urban migration, the destination being small towns as well as Kenya's main cities – Nairobi and Mombasa – both of which show 100 per cent of the counties as urban. Urban population in Kenya was 12.5 million in 2009. Majority of the counties are far from urbanization. Decentralization might, however, contribute to rapid urbanization in the counties.

Figure 3.11: Population density and urbanization by county, 2009



Source: Government of Kenya (2011)

High urban growth requires the county governments to invest in urban amenities such as water, sewerage, waste management and other infrastructure, without losing sight of what attracts people to urban centres. The counties, as well as the national government, are faced with the challenge of making rural areas equally attractive through provision of amenities such as electricity and a good road network, in order to attract private sector

Table 3.5: Trends in income inequality estimates for Kenya, 1964-2006

Author	Reference Year	Data Source	Gini Coefficient
Bigsten, 1986	1964	-	0.630
Jain, 1975	1969	ILO, 1972	0.481
Lecaillon et al.	1969	-	0.604
Bigsten, 1986	1974	-	0.690
ILO, 1984	1976	Based on National Accounts	0.599
Van Ginneken and Park, 1984	1977	Social Accounting Matrix (synthetic data)	0.570
Milanovic, 1994	1981-83	Chen, Datt and Ravallion, 1993	0.573
Lecaillon et al.	1984	-	0.604
Deininger & Squire, World Bank, 2004	1992	Welfare Monitoring Survey I	0.599
World Bank Poverty Monitoring Database, 2002	1992	Social Dimensions of Adjustment Survey	0.569
World Bank Poverty Monitoring Database, 2002	1994	Welfare Monitoring Survey II	0.443
World Bank, World Development Indicators, 2004	1997	Welfare Monitoring Survey III	0.419
Society for International Development, 2004	1999	Integrated Labour Force Survey	0.556 (No adjustment)
0.625 (per capita)			
World Bank estimates	2005/2006	Kenya Integrated Household Budget Survey	0.452

Source: World Income Inequality Database V2.0c May 2008 http://www.wider.unu.edu/research/Database/en_GB/wiid/

investment in medium and small enterprises as well as an efficient transportation system.

3.5 Income Inequalities

Whereas poverty measures summarize income or expenditure for the population below a poverty line, measures of income inequality are concerned with the income or expenditure distribution across the various economic groups in the entire population. According to the Kenya National Bureau of Statistics-KNBS (2008), based on the KIHBS 2005/06, the lowest 10 per cent of households in rural areas controlled 1.63 per cent of total expenditure, while the top 10 per cent controlled approximately 36 per cent. Also, expenditure shares tend to be higher in poor regions compared to richer regions. Moreover, poor regions tend to have larger proportions of their populations in the lower expenditure deciles. Table 3.5 provides estimates of the Gini coefficient for Kenya from various studies and time periods. The estimates suggest that income inequality in Kenya was high from the 1960s to 1980s, while estimates based on recent household surveys (1992, 1994, 1997 and 2005) suggest relatively lower but still substantial income inequality.

Table 3.6: Income inequality and poverty in selected countries

Country	Survey year	Gini	Population below national poverty line (%)
China*	2004	0.469	4.6
Malaysia*	1997	0.492	15.5
Thailand*	2002	0.420	13.6
Ghana*	1998/99	0.408	39.5
Ethiopia**	1999/2000	0.300	23.0
Malawi**	2004/2005	0.390	20.8
Rwanda**	2000	0.468	60.3
Tanzania*	2000/01	0.346	35.7
Uganda*	2002	0.457	37.7
Kenya*	1997	0.452	52.0
Kenya***	2005/2006	Rural: 0.380	
Urban: 0.447	49.1		

33.7

Sources: **World Bank (20080; *UNDP (2007) and *** KNBS (2008)

Chapter 4

Labour Market and Employment Opportunities

4.1 Introduction

Employment, unemployment and other labour market issues attract considerable interest in Kenya. Creation of jobs for the youth is particularly a major focus of development policy. The interest in the youth is partly explained by their large share of Kenya's population. Individuals aged below 35 years constitute about 80 per cent of the population, while the youth aged 15-35 years account for about 37 per cent of the population. In addition, employment and unemployment are unevenly distributed across age groups, with the youth having particularly higher rates of unemployment. As an example, unemployment among the youths aged 20-24 was about 24 per cent relative to an overall unemployment of 12.7 per cent in 2005/06 (Kenya National Bureau of Statistics-KNBS, 2008). This Chapter analyzes labour force growth, employment, unemployment and productivity in Kenya. Overall, the working-age population (persons aged 15-64 years) in Kenya was estimated at 19.8 million persons in 2005/06, with a labour force participation rate of 73 per cent. The working-age population increased to about 20.6 million individuals in 2009 (Kenya National Bureau of Statistics, 2010).

4.2 Employment

The employment to population ratio for the working-age population (15-64) was about 69 per cent in 2009. Employment to population ratio was relatively lower for the youths at 49 per cent and 63 per cent for those aged 15-24 and 15-35 years, respectively. Proportionately more males are employed than females across all these age cohorts. Although total employment has increased, a larger share of the new jobs created is in the informal economy. Specifically, only about 19 per cent of all employment is formal, while the share of informal economy jobs has steadily increased from 70 per cent in 2000 to 83 per cent in 2012. The declining capacity of the formal sector to create employment is evidenced by the fact that out of the 445,900 new jobs created in 2009, 88 per cent were in the informal economy (Table 4.1 and Figure 4.1). This trend presents a challenge on the appropriate mix of informal versus formal employment.

Table 4.1: Decent work indicators and employment opportunities in 2009

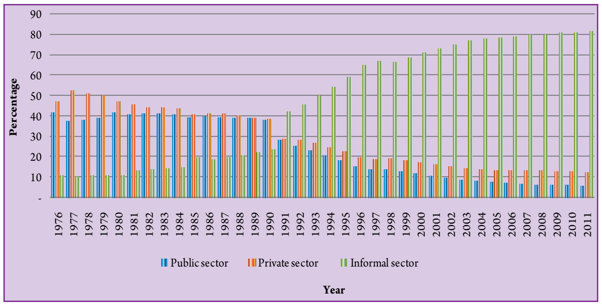
	Age Group		
Decent Work Indicator	15-64 years	15-35 years	15-24 years
Employment-to-population ratio, in %[1]	69.2	62.7	48.6
Male	73.6	66.2	49.4
Female	65.1	59.3	47.8
Informal employment, in %[2]	77.1	77.4	84.3
Male	71.4	72.4	81.6
Female	83.4	82.6	87.0
Urban areas	52.8	54.3	84.2
Peri-urban areas	78.5	79.0	63.4
Rural areas	86.9	87.7	91.3

Source: Government of Kenya (2010)

Notes:
1. Currently employed population of relevant age (e.g. 15-64 years), as percentage of the total population of the relevant age group (aged 15 -64 years).
2. The informally employed included those in the informal sector (*Jua Kali*), self-employed – informal, small-scale agriculture, self small-scale agriculture, pastoralist employed, self pastoralist, and private household.

It is estimated that about 10 million persons were engaged in the informal sector in 2012, up from about 6 million and 9 million in 2004 and 2010, respectively. Most of the informal economy jobs are characterized by higher ratios of casualization, are more precarious, and exhibit lower productivity and wages. These outcomes imply that the relatively strong economic growth since 2003 may not have translated into meaningful improvement in the quality of jobs created. This may have undermined the welfare of workers and their families (Figure 4.1).

Figure 4.1: Share of recorded employment in Kenya by sector

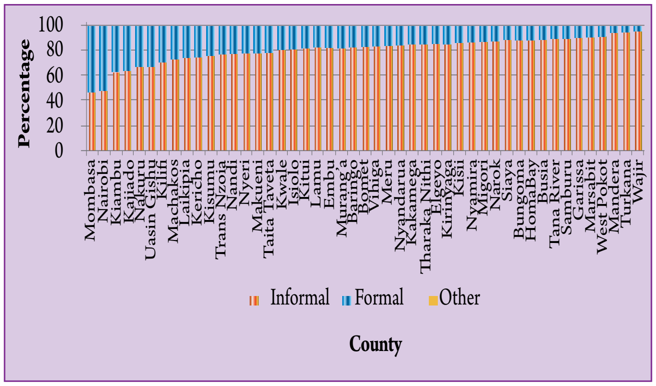


Source: Kenya National Bureau of Statistics - KNBS (Various), Economic Survey

The youth, particularly those aged 15 to 24 years, are relatively over-represented in the informal economy, having a proportion of about 84 per cent. Female youths in this age category are more likely to be engaged in the informal economy, with a proportion of about 87 per cent compared to about 82 per cent for the males. This could be an outcome of inequities in educational attainment and gender-based division of labour (Table 4.1).

Employment in the informal economy is more pronounced in rural areas where about 87 per cent of the working-age population is engaged in informal activities relative to 78 per cent and 53 per cent for peri-urban and urban areas, respectively (Government of Kenya, 2010). The more urbanized counties such as Mombasa and Nairobi tend to have lower shares of informal employment (Figure 4.2)

Figure 4.2: Share of informal and formal employment by county, 2009



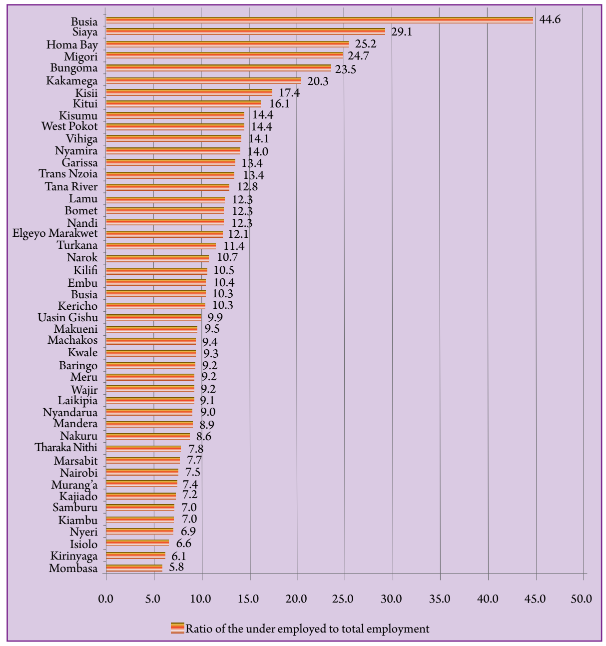
Source: Government of Kenya (2010)

Some of the reasons attributed to the expanding informal economy are lack of incentive structures for informal enterprises to move to formality, cumbersome administrative requirements, and high tax rates. Within the formal sector, employment growth was higher in the private sector. The ratio of private to public sector employment was 2 to 1 in 2008 through 2010. Private sector employment grew by about 3.8 per cent in 2010 relative to its 2009 level, while public sector employment grew by 1.5 per cent (Government of Kenya, 2012). Thus, the formal private sector is a key generator of modern sector jobs, and creating an enabling environment for its expansion is likely to increase employment opportunities further.

The large share of employment in the informal sector in Kenya indicates low productivity, low pay and high levels of unpaid family employment. Informal sector employees are also often excluded from social security schemes, and labour protection legislation. The growing informal economy is characterized by either under-employment or working for very long hours, and a large share of the informally employed are classified as the working poor. These jobs are therefore less attractive to most of the job seekers, who have preference for formal sector jobs. Relative to workers aged 15-64 years, women and the youth are more likely to be engaged in informal activities.

In addition to concerns about an expanding informal economy, the labour market is also plagued with under-employment. Under-employment is one of the manifestations of underutilization of human resources. The proportion of the under-employed (to the total employed persons), defined as persons working for less than 29 hours a week, was about 5 per cent in 1998/99, 21 per cent in 2005/06 and 18 per cent in 2009. With respect to absolute numbers, about 2.7 million Kenyans were under-employed in 2005/06, and this figure increased to over 3.3 million in 2009. Based on the 2005/06 Household Budget Survey, Pollin et al. (2007) indicate that 70 per cent of the under-employed are poor, relative to a poverty rate of 46 per cent for the overall population. Figure 4.3 presents under-employment levels across Kenya's counties in 2009 and indicates that these levels are significantly variable across these regions.

Figure 4.3: Under-employment rate for 15-64 year olds by county, 2009



Source: Government of Kenya (2010), and author computations

Under-employment is prevalent in counties furthest from major urban cities. For instance, Nyanza and Western provinces have the highest under-employment rates; i.e. 14 per cent and above. Under-employment in Busia County is 9 times the under-employment in Mombasa County. The poorest counties are not necessarily affected by under-employment.

4.3 Unemployment and Inactivity

In 2005/06, open unemployment rate was 12.7 per cent, with the youth aged 15-24 recording an unemployment rate of about 25 per cent. Youth unemployment is more acute in urban areas, and in 2005/06 was estimated at 35.8 per cent among those aged 20-24 years.

Open unemployment using the conventional definition was modest, estimated at 8.6 per cent of the working-age population in 2009, having improved from 12.7 per cent in 2005/06 (Table 4.2). The unemployment rates for the youths aged

15-24 and 15-35 years were 14.2 per cent and 10.4 per cent, respectively, in 2009. Across all the age groups, women have lower unemployment relative to men. This is likely to be a reflection of the fact that a large share of women is inactive, and therefore not included in the labour force (Table 4.2).

Table 4.2: Unemployment, 2009

Variable	Age Group		
	15-64 years	15-35 years	15-24 years
Unemployment rate, in %[1]	8.6	10.4	14.2
Male	8.8	10.7	14.8
Female	8.3	10.2	13.5
Urban areas	11.6	13.8	21.2
Peri-urban areas	9.3	11.7	15.8
Rural areas	7.2	8.6	11.2
Persons not in school and unemployed	15.9	16.0	14.9
Male	9.8	9.9	9.9
Female	21.6	21.7	19.9

Source: Government of Kenya (2010)

[1] Currently unemployed population of relevant age group (e.g. 15-64 years) as a percentage of total economically active (employed and unemployed) population of the respective age group.

Although open unemployment is relatively low, the proportion of inactive persons to the total labour force was about 30 per cent when full-time students were included. In 2009, about 14 per cent of those aged 15-64 years were inactive and the rates for the youths aged 15-35 and 15-24 were 18 per cent and 29 per cent, respectively. Inactivity sometimes arises when labour market participants get discouraged owing to scarce job opportunities that meet their expectations. Among the youth aged 15-35 years, an estimated 11 per cent of their total population was inactive (when full-time students were excluded), suggesting that youth inactivity is a significant challenge in Kenya (Table 4.3).

The unemployment and inactivity amongst the youth can be attributed to inability of the economy to create a sufficient number of good quality jobs, a rapidly growing youth population, relatively low levels of education attainment, lack of appropriate labour market skills, queuing for better jobs, skills mismatch and information asymmetries in the labour market, among others.

Table 4.3: Population groups by activity status, per cent, 2009

	Age Group		
Activity status	15-64 years	15-35 years	15-24 years
Active population (labour force)	44.8	43.0	38.1
Employed	40.9	38.5	32.7
Inactive population	14.1	18.2	29.0
Other (undetermined)	0.23	0.22	0.23
Total* %	100.03	99.92	100.03
Total number (millions)	34.8	23.1	11.7

Source: Government of Kenya (2010)

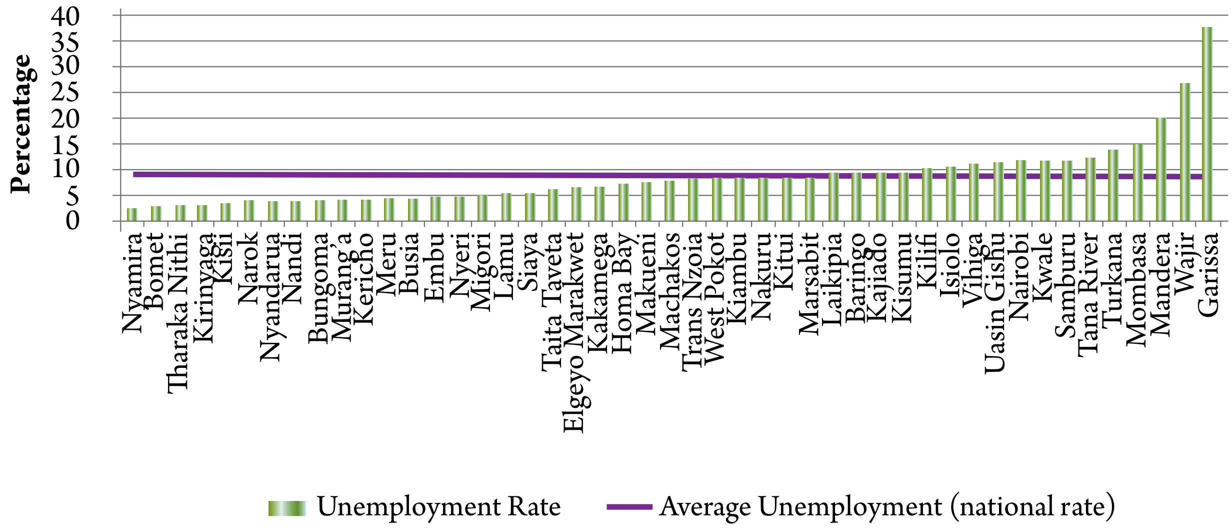
*Totals do not add up to 100% due to rounding off.

Figure 4.4 represents unemployment levels across Kenya's 47 counties. Unemployment levels vary widely across the counties. What is evident is that the counties with high rates of urbanization such as Kisumu, Nairobi and Mombasa, as well as counties in ASAL areas, tend to have relatively higher levels of unemployment.

Although measured open unemployment using the conventional definition is relatively low, unemployment combined with inactivity present a significant problem. Efforts to address unemployment need to expand their focus to include the problem of inactivity, particularly among the youth.

Another component of the unemployment challenge for the youth is that majority of the unemployed youth lack employable skills. Out of the total unemployed youth, 92 per cent have no job training other than formal schooling. This challenge is compounded by skills mismatch among graduates at higher levels of education.

Figure 4.4: Unemployment rate for 15-64 year olds by county, 2009



Source: Government of Kenya (2010)

Given that a larger share of the population lives in the rural areas, and the large informal sector, increasing productivity in smallholder farming and in the informal economy is fundamental for growth, creation of good quality jobs and poverty reduction.

4.4 Conclusion and Policy Options

The proportion of employed persons of the working-age population is relatively high (about 69.2%). Even so, the labour market is characterized by a number of challenges, including: (i) a lower employment to population ratio among the youth – about 63 per cent for 15-35 years; (ii) high levels of under-employment, a proportion of which declined slightly in 2009 relative to 2005/06, and (iii) probable decline in the quality of employment given the expanding informal economy. Informality is widespread across Kenya's regions but is more pronounced in rural areas. The bulk of the employed labour force is in smallholder agriculture and the rapidly growing informal sector. Moreover, most of the informal economy jobs are vulnerable, i.e. the jobs lack the 'collective aspects' that make up decent work. These aspects include: productive work, workplace security, better prospects for personal development, social protection and social integration.

Unemployment and inactivity are major labour market challenges in Kenya. These challenges are particularly more severe among the youth. Open unemployment using the conventional definition is modest, estimated at 12.7 per cent and 8.6 per cent of the working-age population (15-64 years) in 2005/06 and 2009, respectively. The unemployment rates for the 15-35 years and 15-24 years age groups in 2009 were 10.4 per cent and 14.2 per cent, respectively.

Based on the 2009 Kenya Population and Housing Census, Kenya's labour force has relatively low education attainment compared to middle-income countries, despite comparatively higher than average education indicators within the African region. About 65 per cent of the population has only primary or incomplete secondary education, and another 10 per cent has never attended school. It is also estimated that nearly 1.5 million children (aged between 5 and 14) or 14 per cent of the approximately 10.6 million children left school or never attended school in 2009. These children are likely to graduate into youths with little employable labour market skills in the next decade. The interventions to reign in unemployment should thus go beyond the labour market and include other related social sector areas such as enhancing both access and survival in education. There is need for review of curricula to match the labour market demands for skills. Enhanced investments in human resource development should be a key intervention pillar. These interventions should be well targeted to encompass the poor.

Chapter 5

Health

5.1 Introduction

The goal of Kenya's Vision 2030 for the health sector is to provide equitable and affordable health care at the highest affordable standards to her citizens. Good health is a prerequisite for enhanced economic growth and poverty reduction and a precursor to the realization of Kenya Vision 2030's social pillar goal. The Constitution of Kenya 2010 under the Bill of Rights provides for access to equitable health care as a right to every Kenyan. Against this background, the health sector is repositioning itself to fulfil the expectations of Kenyans through improved health infrastructure and service delivery systems at both the national and county levels as provided by the Constitution on devolution of functions and responsibilities. The health sector, by its very nature, is a multi-stakeholder and role player that has actors ranging from government, private sector, faith-based organizations, and development partners involved in service delivery. In a centralized system, this poses many challenges, which are significantly heightened under a devolved structure of government.

The Constitution of Kenya 2010 is clear that the primary health obligation falls on the state on all fronts ranging from development to service delivery. It is in this light that it is crucial that the health sector coordinating mechanisms have policy positions that speak to the proposed roles for all stakeholders in the health sector, especially the private sector. This Chapter focuses on health sector performance during the review period.

5.2 Health Sector Performance

Despite the relative good performance in health indicators, there are numerous gaps in health outcomes. In fact, the country is not likely to achieve some of the Millennium Development Goals by 2015. At 488 per 100,000 live births, Kenya's maternal mortality ratio is high, mainly due to a number of factors that include low levels of delivery (43%) through health institutions. Moreover, despite increasing use of contraceptives, the total fertility rate has been stagnating at around five births per woman for the last 10 years.

The Kenyan epidemiology profile indicates that the disease burden is still high. The top five causes of outpatient morbidity, namely: malaria, diseases of the respiratory system, diseases of the skin, diarrhoea and accidents account for about 70 per cent of total causes of morbidity. Malaria contributes about a third of total morbidity. The leading causes of morbidity are infectious and parasitic diseases (42% of total mortality in 2008, based on KDHS 2010), followed by diseases of the respiratory system (7%).

HIV prevalence estimates vary widely, but the latest estimates from the 2008/09 Kenya Demographic and Health Survey (KDHS) place the prevalence rate at 6.3 per cent, slightly lower than the previous estimate of 6.7 per cent (KDHS, 2003). Although this reduction is small in terms of the number of cases as compared to the total population, effective prevention programmes are key to keeping infection rates low in the future.

Remarkable achievements have been made in the reduction of under-five mortality from 115 per 1,000 live births in 2003 to 74 per 1,000 live births in 2008/09, and infant mortality from 77 per 1,000 live births to 52 per 1,000 live births in the same period. The proportion of children fully immunized against communicable diseases increased from 64 per cent in 2005/06 to 77 per cent in 2009.

The declining maternal health indicators are worrying. Maternal Mortality Ratio (MMR) has deteriorated from 414 in 2003 to 488 deaths per 100,000 live births in 2008/09; only 43 per cent of children are delivered in a health facility (KDHS, 2008-2009). Births attended by skilled health personnel declined from 51 per cent in 2007 to 43 per cent in 2010/11.

The nutritional status of children has also not shown significant improvement over the years. An estimated 16 per cent of children under-five are underweight, while 7 per cent are wasted, and 35 per cent are stunted. Regional level health indicators show that North Eastern, Coast, Nyanza and Western provinces have the worst infant and child mortality indicators. High poverty levels and inadequate environmental sanitation, among other factors, may be contributing to these differences.

The health sector monitoring indicators are shown in Table 5.1 and Table 5.2. The performance indicators in the medical services sub-sector include malaria mortality, births attended by skilled medical personnel and access to ARVs. In the public health sub-sector, the key indicators are child and maternal mortality, immunization coverage and prevalence of HIV and AIDS. The performance of these indicators is highlighted below:

Table 5.1: Performance of health status indicators in the medical services sub-sector, 2008/09–2010/11

Indicators	Base Year (2007)	Actual 2008/09*	Actual 2009/10**	Actual 2010/11**	Actual 2011/2012**	Target 2011/2012**
Reduce the burden of disease: inpatient malaria mortality as per cent of total inpatient morbidity	19	17	16	16	15	17
Increased propor-tion of births attended by skilled health personnel (%)	51	67	44	43	43	64
Increased coverage of eligible patients on ARVs (%)	58	55	55	56.2	56	60

Source: *Kenya Demographic and Health Survey 2008/09; **Handbook of National Reporting Indicators, Health Management Information System.

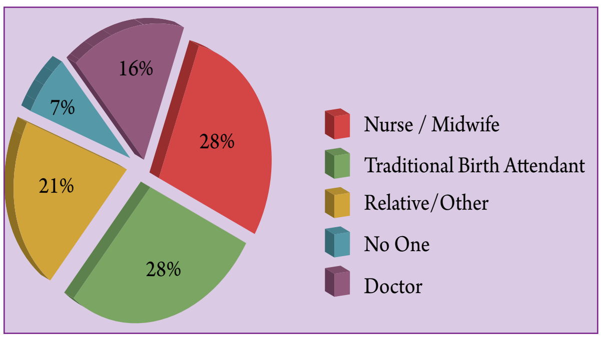
5.2.1 Malaria

Nearly 80 per cent of the population in Kenya is at risk of malaria infection. The malaria target (inpatient malaria mortality as a per cent of total inpatient morbidity) has, however, not been met. Nevertheless, the contribution of malaria mortality to total inpatient morbidity declined from 16 per cent in 2009/10 to 15 per cent in 2011/12. This is, to some extent, due to the introduction of a new treatment policy on malaria using Artemisinin Combination Therapy (ACT) and mosquito-treated bed nets.

5.2.2 Skilled birth attendant

The target for skilled birth attendance for 2010/11 was 66 per cent. According to the most recent data, only 43 per cent of deliveries were performed by a health professional during the 2010/11 period, indicating that the target was not met. Factors associated with low proportions of birth at health facilities include high cost of delivery, long distances to health facilities, and cultural barriers. During the period under review, the sector continued to upscale interventions, namely: improving access to skilled delivery through construction and equipping of model health centres, employment of health workers per constituency, and rolling out the output-based approach to cater for the poor.

Figure 5.1: Assistance during delivery in Kenya



Source: Kenya Population Data Sheet (2011)

Less than one-half of births are attended by a skilled provider (Figure 5.1). Skilled attendance during delivery reduces the risk of maternal and infant health complications and deaths. Among women who gave birth in the last five years, only 44 per cent of the deliveries were attended by a skilled provider, including a doctor, nurse, or midwife. More than one out of the four deliveries were attended by a traditional birth attendant, and one out of five was supervised by a relative or friend. Mothers who did not receive any form of assistance accounted for 7 per cent of births registered.

5.2.3 Access to Antiretrovirals (ARVs)

The sector targeted to increase the proportion of ARVs from 58 per cent in 2007 to 70 per cent in 2010/11. This target was, however, not met since only about half (56%) of those eligible were on treatment. Although the number of AIDS-related deaths has declined from 120,000 annually in 2003 to the current 85,000 because of the availability of ARVs, this situation may not be sustainable because the financing of the ARVs is largely dependent on donor support.

Table 5.2: Performance of health status indicators in the medical services sub-sector, 2008/09 – 2010/11

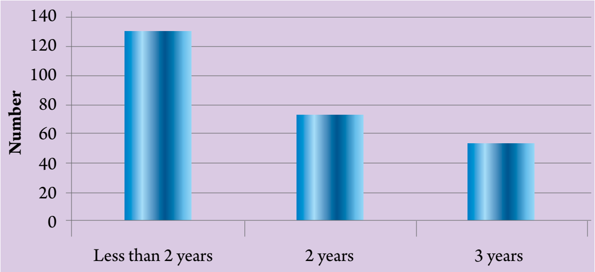
Indicators	Base Year (2007)	Actual 2008/09*	Actual 2009/10*	Actual 2010/11*	Actual 2011/12*	Target 2011/12**
Reduce under-five mortality (ratio per 1000)	92	74	74	74	74	45
Reduce maternal mortality (ratio per 100,000)	414	488	488	488	488	200
Immunization coverage (%)	71.0	77.0	77.0	77.0	84.7**	90.0
Reduce HIV prevalence (%)	7.4	6.4	6.4	6.4	6.3	6.4

Source: Kenya Demographic and Health Survey 2008/09; Handbook of National Reporting Indicators, Health Management Information System

5.2.4 Infant and under-five mortality

The trend of national under-five mortality rate has shown a decline over the years. The under-five mortality declined to 74 deaths per every 1,000 live births in 2008/09 down from 115 deaths per every 1,000 live births in 2003. The marked improvement in child health was attributed to various interventions, including increased immunization coverage from 71.0 per cent in 2007/08 to 84.7 per cent in 2011/12. Birth spacing of at least two years has dramatic impacts on child health and well-being. Children born less than two years after a previous birth are more than twice likely to die before age five compared to children born three years after a previous birth.

Figure 5.2: Deaths of children under five per 1,000 live births



Source: Kenya Population Data Sheet (2011)

5.2.5 Maternal mortality

Maternal mortality is a major challenge for the health sector. Maternal Mortality Ratio (MMR) is estimated at 488 deaths per every 100,000 live births according to estimates in 2008/09. There is no recent data for the MMR. The Medium Term Plan (MTP) target was to reduce MMR to 200 deaths per every 100,000 live births by 2010/11. The target was therefore not met, hence the need to upscale interventions in future to reverse the trend.

5.2.6 Immunization coverage

One of the most effective primary health interventions in reducing child mortality is child immunization. The sector has continued to strengthen immunization activities throughout the country under the Kenya Expanded Programme on Immunization (KEPI). The immunization coverage has significantly increased over the years from 71 per cent in 2007/08 to 77 per cent in 2010/11. The target of 90 per cent in 2010/11 was, however, not met.

KEPI stepped up surveillance on Alpha Fetoprotein (AFP) and Be Healthy information program (B-Hip). The government and the Global Alliance for Vaccine Initiative (GAVI) have introduced B (Hep) vaccination, and opened a site at Kenyatta National Hospital (KNH) to vaccinate children aged between one month and five years.

5.2.7 HIV prevalence

The HIV/AIDS pandemic poses tremendous challenges to the health system in Kenya. To contain the HIV and AIDS pandemic, the sub-sectors have continued with prevention, treatment and care activities, which have contributed to the decline in overall prevalence to 6.4 per cent in 2010/11 down from 7.4 per cent in 2007. The target for 2010/11 according to the Medium Term Plan was 6.3 per cent, which has almost been met.

Table 5.3: HIV prevalence for adult ages 15-49

Province	**HIV/AIDS**			
	Adults Ages 15-49 with HIV/AIDS (%)			HIV Testing Facilities Offering Youth-Friendly HIV Services (%)
	Total	Women	Men	
Total	6.3	8.0	4.3	10
Rural	6.0	7.2	4.5	-
Urban	7.2	10.4	3.7	-
Nairobi	7.0	10.8	3.4	21
Central	4.6	6.2	2.6	3
Coast	4.2	5.8	2.3	9
Eastern	3.5	3.8	3.0	7
North Eastern	0.9	0.9	0.9	0
Nyanza	13.9	16.0	11.4	13
Rift Valley	4.7	6.3	2.8	8
Western	6.6	9.2	3.4	27

Source: Kenya Population Data Sheet (2011)

On prevention, Voluntary Counselling and Testing (VCT) and Prevention of Mother to Child Transmission (PMCT) services have been scaled up. To date, there are 936 listed antiretroviral facilities, compared to 3 sites in 1998. Currently, there are 3,000 PMCT sites caring for pregnant women. The public health sub-sector avails condoms, whose uptake is estimated at 24 million monthly.

Table 5.4: Antiretroviral therapy facilities listed by counties

County	Facility Listed	County	Facility Listed
Baringo	3	Meru	13
Busia	21	Murang'a	13
Garissa	7	Nandi	6
Kajiado	19	Nyandarua	10
Kiambu	34	Siaya	48
Kisii	15	Tharaka Nithi	10
Kwale	18	Uasin Gishu	9
Machakos	19	West Pokot	2
Marsabit	11	Bungoma	24
Mombasa	21	Embu	14
Nakuru	37	Isiolo	2
Nyamira	11	Kericho	13
Samburu	6	Kirinyaga	15
Tana River	8	Kitui	22
Turkana	20	Lamu	4
Wajir	4	Mandera	4
Bomet	5	Migori	51
Elgeyo Marakwet	5	Nairobi	115
Homa Bay	46	Narok	40
Kakamega	45	Nyeri	15
Kilifi	27	Taita Taveta	1
Kisumu	49	Trans Nzoia	7
Laikipia	24	Vihiga	15
Makueni	28	Total	936

Source of Data: eHealth - Kenya Facilities

5.3 Non-Communicable Diseases

Non-Communicable Diseases (NCDs) are underestimated causes of poverty and a barrier to economic development. Kenya, like most developing countries, is faced with an impending epidemic of chronic diseases, with NCDs contributing about 32 per cent of total mortality rates (WHO, 2002). From 2005–2007, NCDs contributed over half of the top 20 causes of morbidity and mortality in Kenya (MoH, 2007). NCDs also contributed to half of the top 10 leading causes of mortality in the country (MoH, 2007). In 2002, mortality from communicable diseases was 68.2 per cent, while NCDs contributed 31.8 per cent of total mortality (WHO, 2005). In 2007, NCDs contributed 33 per cent of total mortality. Some of the causes of the rise in NCD fatalities are thought to be the following: a change in lifestyle–as the population surges towards urbanization and away from rural areas; unhealthy eating habits; reduced physical activity as more motorized transport is used; and an increase in smoking and alcohol consumption.

5.3.1 Diabetes

Studies indicate that the prevalence of diabetes has grown from 3.3 per cent of the population to 7.2 per cent over the last four years. Majority of those with diabetes are between 20 and 59 years. In Germany, the prevalence rate is 6.6 per cent, with majority being between the 60 and 79 age group.

5.3.2 Cancer

Cancer ranks third among the main causes of deaths in Kenya after infections and cardiovascular or heart-related diseases. Cancer accounts for up to 18,000 deaths annually in Kenya. About 50 Kenyans die daily from various forms of cancer. According to Pact Kenya Cancer Assessment in Africa and Asia (2010), about 80,000 cases of cancer are diagnosed each year. According to the International Atomic Energy Agency (2010), the cancer situation in Kenya is dire, with a severe lack of medical practitioners and equipment. The major policy concern, however, is that the Ministry of Public Health and Sanitation has never had any designated programme or budget line for addressing cancer

Table 5.5: Prevalence estimates of Impaired Glucose Tolerance (IGT), 2010

Country	Population 20-79 (000's)	IGT Prevalence		Number of People with IGT (000's) in the 20-79 age group			
		National	Comparative*	20-39	40-59	60-79	Total
Uganda	13,486	7.2	8.6	485.9	301.9	185.0	972.8
Rwanda	4,836	7.1	8.6	174.0	115.0	55.1	344.0
Nigeria	72,060	6.7	7.6	2,258.8	1,595.8	979.0	4,830.5
Ghana	12,870	12.7	14.1	742.2	531.9	364.1	1,638.2
Kenya	18,795	7.2	8.6	669.5	453.5	238.1	1,361.1
Malaysia	16,920	4.4	4.4	351.2	290.6	103.3	745.1
South Africa	28,550	7.6	8.7	668.1	743.2	752.5	2,163.8
Indonesia	152,828	10.7	11.0	6,203.2	6,608.9	3,515.1	16,327.3
Germany	62,654	6.6	4.1	4.7	979.6	3,148.2	4,132.6

Source: IDF (2009)
* All comparisons between countries should be done using the comparative prevalence, which is adjusted to the world population.

among other non-communicable diseases that are silent killers. The only available data are from Nairobi and its environs through the Nairobi Cancer Registry (NCR), and even this scant information only dates back to 2000.

Kenyatta National Hospital, the only public institution that hosts most of the cancer experts and technology in Kenya, is currently overwhelmed with inpatient and outpatient cases and simply cannot cope. Cancer patients have to travel from across the country, some as far as 600km away to access treatment. Diagnostic services (laboratory and radiological) are available mainly in Nairobi. The most common forms of cancer in women are the cancer of the cervix and breast, while in men are cancers of the oesophagus, head, neck and prostrate. In children, the most common are blood cancers (leukaemia) and lymphomas. Cancer of the digestive tract, such as that of the stomach, liver, colon and rectum are also on the increase.

The extent of NCDs is rising and is increasingly contributing to morbidity and mortality, leading to a double burden as communicable diseases are not yet fully addressed. A major drawback in fighting NCDs is limited data and lack of a national policy on NCDs. Similarly, adequate finance and human resources are major challenges and receive limited government support. Technical inputs have been available through development partners, but have been piecemeal due to the wide scope of the work and interventions that are required to address the NCDs agenda.

5.4 Access to Reproductive Health

Reproductive health status, processes and outcomes in a given country are affected by norms regarding marriage, childbearing and sexuality, as well as by women's educational and economic status and ethnic background. Reproductive health is also influenced by the capacity of the health system to provide access to comprehensive, quality reproductive health information and services as a basic human right to all.

Overall, there is evidence of progress to quality reproductive health information and services, but many poor and less educated women, especially adolescents and young girls in rural areas, continue to lag behind with poor access and high demand for such services. In addition, inequalities in access to reproductive health information and services persist both within and across provinces, illustrated by the fact that an estimated 56 per cent of births

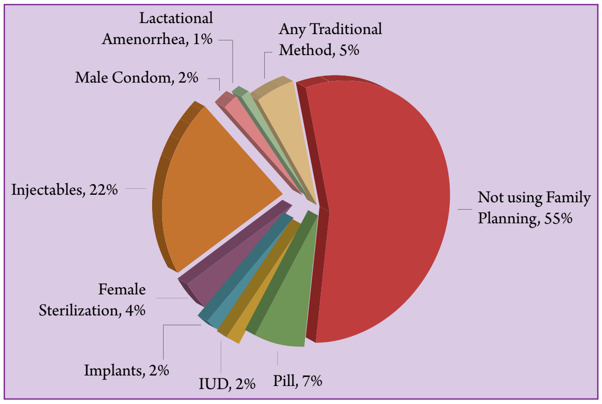
Table 5.6: Family planning and maternal and child health

	Women Ages 15-49 who Report their most Recent Birth was Unplanned Pregnancy (%)	Births Attended by a Skilled Provider (%)	Facilities Offering Comprehensive Emergency Obstetric Care (%)	Deaths to Children Under Five per 1,000 Live Births
Total	47.1	43.8	7	74
Rural	50.3	36.8	-	86
Urban	34.9	74.8	-	74
Nairobi	32.8	88.9	14	64
Central	45.8	73.8	7	51
Coast	29.8	45.6	5	87
Eastern	46.1	43.1	3	52
North Eastern	3.1	31.6	9	80
Nyanza	53.8	45.5	10	149
Rift Valley	50.5	33.7	7	59
Western	61.3	25.8	2	121

Source: Kenya Population Data Sheet (2011)

take place without skilled attendance. Moreover, an estimated 39.4 per cent of married women aged 15-49 in Kenya lack access to modern contraceptive methods, and 47.1 per cent of pregnancies are unintended or unplanned.

Figure 5.3: Contraceptives use by method in Kenya



Source: Kenya Population Data Sheet (2011)

The number of registered births reduced from 747,600 in 2010 to 746,600 in 2011, while deaths decreased from 175,800 in 2010 to 174,500 in 2011. The registration of births and deaths coverage rates at national level reduced modestly by 2.5 per cent and 3.3 per cent, respectively.

5.5 Human Resources

Kenya has an average of 16 doctors and 153 nurses per 100,000 populations, compared to the WHO recommended minimum staffing levels of 36 and 356 doctors and nurses, respectively, per 100,000 populations. The annual recruitment within the Ministry of Health has not drastically altered the numbers because of the high attrition especially in the public sector, as well as performance management issues, unequal distribution of staff, and diminishing productivity among the health work force.

The Research and Development (R&D) sub-sector in the Ministry of Health has been developing the critical mass of human resource to conduct human health research. Currently, the number of health personnel (in post) stands at 204. Poor working conditions coupled with brain drain are a major challenge affecting research and development capacity in the sector. These shortages of human resources have a negative impact on the sector's capacity to deliver services.

Table 5.7: Family planning methods

Province	Women Ages 20-24 Married by Age 18 (%)	Married Women Ages 15-49 Using Contraception (%)		Facilities Offering Modern Methods of Contraception (%)	Married Women Ages 15-49 with Unmet Needs for Family Planning (%)		
		Any Method	Modern Methods				
					Total	Spacing	Limiting
Total	26.4	45.5	39.4	85	25.6	12.9	12.8
Rural	31.3	43.1	37.2	-	27.3	13.5	13.8
Urban	15.6	53.1	46.6	-	20.2	10.7	9.5
Nairobi	7.2	55.3	49.0	68	15.1	6.5	8.6
Central	16.8	66.7	62.5	89	15.6	6.1	9.5
Coast	41.3	34.3	29.7	75	24.4	16.2	9.2
Eastern	18.1	52.0	43.8	79	23.7	10.2	13.4
North Eastern	56.3	3.5	3.5	67	16.0	14.7	1.3
Nyanza	32.0	37.3	32.9	93	31.7	18.6	13.1
Rift Valley	30.1	42.4	34.7	92	31.1	13.7	17.4
Western	26.9	46.5	41.1	93	25.8	13.9	12.0

Source: Kenya Population Data Sheet (2011)

Due to these challenges, the provisions for health as a basic human right will require fundamental transformation to signify change in the health sector with major implications for the human resources for health. The government is committed to improving access and equity of essential health care services and has set critical and ambitious targets for providing health services to the population. This is through investments in health and in implementation of planned investments.

In order to achieve these national goals and objectives, provision of a work force with appropriate skills, equitably distributed across the country, is critical. As in most developing countries, challenges in human resources for health impede the health sector in planning, service delivery and achievement of expected national health outcomes.

5.6 Physical Infrastructure

The health sector is a multi-stakeholder sector with government, private, faith-based and development partners involved in service delivery. This, in a centralized system, already poses many challenges that will significantly be heightened under a devolved structure of government. Out of the 8,250 health facilities in the health sector, the Ministry of Health operates 47 per cent of the facilities. The private sector and faith-based organizations (FBOs) complement the provision of health care by operating 49 per cent of health facilities.

Private and mission health facilities and public hospitals are important sources of health services for the non-poor, while health centres in rural areas and urban slums are the primary health care providers for majority of the patients from poor households. Therefore, improvement in rural and basic urban health facilities would be more beneficial to the poor.

Table 5.8: County population, number of doctors and nurses in place and the minimum requirement

s/No	County	Population	Population per Doctor	*Approximate No. of Doctors	Minimum Required No. of Doctors	Population per Nurse	Minimum Required No. of Nurses	*Approx. number of Nurses
1	Baringo	555,561	278,000	2	56	4,115	592	135
2	Bomet	724,186	103,000	7	85	4,210	951	172
3	Bungoma	1,630,934	45,000	36	128	3,315	1,467	492
4	Busia	488,075	31,000	16	70	1,148	793	425
5	Elgeyo Marakwet	369,998	62,000	6	32	2,434	395	152
6	Embu	516,212	13,000	40	54	1,060	551	487
7	Garissa	623,060	52,000	12	61	2,316	665	269
8	Homa Bay	958,791	44,000	22	92	1,949	1,028	492
9	Isiolo	143,294	143,000	1	11	3,115	153	46
10	Kajiado	687,312	76,000	9	66	7,723	733	89
11	Kakamega	1,660,651	69,000	24	159	3,122	1771	532
12	Kericho	758,339	15,000	51	58	1,823	630	416
13	Kiambu	1,623,282	15,000	108	159	1,466	1,785	1,107
14	Kilifi	1,109,735	48,000	23	84	2,655	1,184	418
15	Kirinyaga	528,054	31,000	17	54	1,100	563	480
16	Kisii	1,511,422	378,000	4	119	5,703	1,348	265
17	Kisumu	968,909	15,000	65	92	1,433	1,033	676
18	Kitui	1,012,709	26,000	39	96	1,770	1,081	572
19	Kwale	649,931	46,000	14	63	3,080	693	211
20	Laikipia	399,227	21,000	19	35	1,446	426	276
21	Lamu	101,539		N/A	7		108	N/A
22	Machakos	1,098,584	27,000	41	102	1,688	1,172	651
23	Makueni	884,527	37,000	24	87	1,970	944	449
24	Mandera	1,025,756	256,000	4	97	14,051	1,094	73
25	Marsabit	291,166	321,000	1	26	1,967	311	148
26	Meru	1,356,301	38,000	36	126	1,609	1,447	843
27	Migori	563,033	24,000	23	88	1,478	978	381
28	Mombasa	939,370	7,000	134	89	1,381	1,002	680
29	Murang'a	942,581	17,000	55	87	1,609	951	586
30	Nairobi	3,138,369	23,000	136	123	2,797	3,548	1,122
31	Nakuru	1,603,325	32000	50	153	2,146	1,710	747
32	Nandi	752,965	94,000	8	72	3,137	803	240
33	Narok	850,920	41,000	21	83	3,128	908	272
34	Nyamira	598,252	100,000	6	41	2,498	519	239
35	Nyandarua	596,268	22,000	27	56	1,117	638	534
36	Nyeri	693,558	5,000	139	67	654	740	1,060

s/No	County	Population	Population per Doctor	*Approximate No. of Doctors	Minimum Required No. of Doctors	Population per Nurse	Minimum Required No. of Nurses	*Approx. number of Nurses
37	Samburu	223,947	25,000	9	20	1,037	239	216
38	Siaya	842,304	44,000	19	82	1,815	898	464
39	Taita Taveta	284,657	71,000	4	26	2,612	304	109
40	Tana River	240,075	48,000	5	26	5,108	304	47
41	Tharaka Nithi	365,330	21,000	17	32	1,773	389	206
42	Trans Nzoia	818,757	273,000	3	76	6,110	873	134
43	Turkana	855,399	285,000	3	83	14,748	912	58
44	Uasin Gishu	894,179	4,000	224	86	706	954	1267
45	Vihiga	554,622	185,000	3		3,990		139
46	Wajir	661,941	132,000	5	48	4,163	706	159
47	West Pokot	512,690	73,000	7	53	1,979	547	259

Source: Commission on Revenue Allocation - CRA (2011); *Computed by dividing population with population per doctor

Table 5.9: Number of medical facilities listed by county

County	Population per Facility*
Baringo	2,955.11
Bomet	4,642.22
Bungoma	11,170.78
Busia	5,810.42
Elgeyo Marakwet	3,008.11
Embu	3,609.87
Garissa	5,769.07
Homa Bay	5,099.39
Isiolo	3,494.98
Kajiado	3,082.12
Kakamega	7,537.22
Kericho	4,956.46
Kiambu	3,714.60
Kilifi	4,762.81
Kirinyaga	2,182.04
Kisii	6,941.46
Kisumu	6,374.40
Kitui	3,421.31
Kwale	6,631.95

County	Population per Facility*
Laikipia	4,435.86
Lamu	2,361.37
Machakos	3,868.25
Makueni	4,807.21
Mandera	14,051.45
Marsabit	3,064.91
Meru	3,897.42
Migori	5,620.65
Mombasa	2,631.29
Murang'a	3,800.73
Nairobi	5,811.79
Nakuru	4,674.42
Nandi	4,429.21
Narok	5,710.87
Nyamira	5,808.27
Nyandarua	4,887.44
Nyeri	1,787.52
Samburu	3,245.61
Siaya	5,167.51
Taita Taveta	3,429.60
Tana River	4,139.22

County	Population per Facility*
Tharaka Nithi	3,845.58
Trans Nzoia	9,411.00
Turkana	6,198.54
Uasin Gishu	5,291.00
Vihiga	7,020.91
Wajir	6,244.73
West Pokot	5,961.51
Total	4,692.31

Source: eHealth - Kenya Facilities; TISA *Computation by author

Table 5.10: Minimum number of health facilities required per county*

Serial No.	County	Level 2: Dispensary	Level 3: Health Centre	Level 4: District Hospitals	Level 5: Provincial Hospitals
1.	Baringo	56	19	6	1
2.	Bomet	89	30	9	1
3.	Bungoma	138	46	14	1
4.	Busia	74	25	7	1
5.	Elgeyo Marakwet	37	12	4	0
6.	Embu	52	17	5	1
7.	Garissa	62	21	6	1
8.	Homa Bay	96	32	10	1
9.	Isiolo	14	5	1	0
10.	Kajiado	69	23	7	1
11.	Kakamega	166	55	17	2
12.	Kericho	59	20	6	1
13.	Kiambu	167	56	17	2
14.	Kilifi	111	37	11	1
15.	Kirinyaga	53	18	5	1
16.	Kisii	126	42	13	1
17.	Kisumu	97	32	10	1
18.	Kitui	101	34	10	1
19.	Kwale	65	22	6	1
20.	Laikipia	40	13	4	0
21.	Lamu	10	3	1	0
22.	Machakos	110	37	11	1
23.	Makueni	88	29	9	1
24.	Mandera	103	34	10	1
25.	Marsabit	29	10	3	0
26.	Meru	136	45	14	1
27.	Migori	92	31	9	1
28.	Mombasa	94	31	9	1
29.	Murang'a	89	30	9	1
30.	Nairobi	314	105	31	3
31.	Nakuru	160	53	16	2
32.	Nandi	75	25	8	1
33.	Narok	85	28	9	1
34.	Nyamira	49	16	5	0
35.	Nyandarua	60	20	6	1
36.	Nyeri	69	23	7	1
37.	Samburu	22	7	2	0
38.	Siaya	84	28	8	1
39.	Taita Taveta	28	9	3	0
40.	Tana River	28	9	3	0
41.	Tharaka Nithi	37	12	4	0
42.	Trans Nzoia	82	27	8	1
43.	Turkana	86	29	9	1
44.	Uasin Gishu	89	30	9	1
45.	Vihiga*	-	-	-	-
46.	Wajir	66	22	7	1
47.	West Pokot	51	17	5	1
	Total	3808	1269	383	41

Source: Commission on Revenue Allocation - CRA (2011)
* Community level has no physical health facility

In view of the low investment in infrastructure, most public health facilities are old and dilapidated. Given the increases in population and demand for services, these facilities do not conform to the current infrastructure norms and standards.

Accessibility of health facilities is estimated at 52 per cent based on the 5km radius norm. However, there are variations in access in different parts of the country, with the worst areas being the Northern part of the country.

To provide a base for bed allocation within a county jurisdiction in Kenya, the health sector needs to adopt a population-based method to measure the distribution of acute care beds for each of the 47 counties under the Constitution, and the service load for each hospital. The measure for bed distribution is the number of beds per 1,000 age-adjusted numbers of residents in a county, while the service load of a hospital is measured by the number of persons served per bed.

Table 5.11: Bed distribution per province in Kenya

Province	Beds
Central	1,249
Coast	848
Eastern	1,371
Nairobi	458
North Eastern	260
Nyanza	909
Rift Valley	2,010
Western	500
Total	7,605

Source: eHealth - Kenya Facilities

Table 5.12: Bed distribution per county in Kenya

County	Beds
Baringo	186
Bomet	156
Bungoma	138
Busia	83
Elgeyo Marakwet	123
Embu	142
Garissa	104
Homa Bay	186
Isiolo	41
Kajiado	223
Kakamega	200
Kericho	153
Kiambu	371
Kilifi	233
Kirinyaga	194
Kisii	166
Kisumu	143
Kitui	294
Kwale	96
Laikipia	84
Lamu	31
Machakos	260
Makueni	183
Mandera	52
Marsabit	95
Meru	261
Migori	183
Mombasa	357
Murang'a	192
Nairobi	458
Nakuru	338
Nandi	156
Narok	149
Nyamira	103
Nyandarua	105
Nyeri	387
Samburu	69
Siaya	128
Taita Taveta	77
Tana River	54
Tharaka Nithi	95
Trans Nzoia	60
Turkana	78
Uasin Gishu	159
Vihiga	79
Wajir	104
West Pokot	76
Total	7,605

Source: eHealth - Kenya Facilities

5.7 Commodity Supplies and Management

The Kenya Medical Supplies Agency (KEMSA) is responsible for the procurement, distribution and proper use of medicines and medical supplies in public health facilities. However, the greatest challenge relates to the shortage of essential medicines and non-pharmaceuticals due to supply chain management. As a result, patients are forced to purchase over-the-counter drugs, leading to the risk of drug resistance due to under/over-dosage.

The sector currently receives just about 50 per cent of the required funds for drugs and non-pharmaceutical funding, and development partners fund 90% of ARVs. This situation is not sustainable in the long run and poses a major risk to the lives of HIV/AIDS patients in the event that development partners withhold their support.

5.8 Environmental Protection, Water and Sanitation

The Ministry of Lands, Housing and Urban Development is charged with improving housing conditions in the country, especially for slum dwellers. Provision of proper housing, water, environmental protection and sanitary conditions will lead to better living conditions, hence reduce incidences of vector-borne and other communicable diseases, resulting in better health for all.

Provision of a clean living environment is crucial in delivering health services as it ensures a healthy population. The target for MDG No. 7 was to halve the proportion of people without sustainable access to safe drinking water and basic sanitation by 2015. Table 5.13 shows those households in urban areas that have both improved toilet facilities and access to an improved source of drinking water.

Table 5.13: Access to improved water and sanitation for households in Kenya

Province	Household with an Improved Toilet Facility (%)	Households with Access to an Improved Drinking Water Source (%)
Total	22.6	63.0
Rural	20.1	53.8
Urban	29.8	89.3
Nairobi	42.0	95.5
Central	28.4	69.1
Coast	21.2	64.8
Eastern	19.4	51.1
North Eastern	7.6	69.3
Nyanza	18.1	52.7
Rift Valley	19.5	57.5
Western	24.4	74.3

Source: Kenya Population Data Sheet (2011)

5.9 Health Financing

Currently, public financing for the health sector (recurrent and development) as a percentage of total government expenditure is only about 2 per cent of GNP. Public per capita health spending was US$ 12.6 in 2010/11, which is largely inadequate when compared to the WHO recommendation of an average of US$ 44 per capita on health care. The overall allocations have remained at 6 per cent on the overall government budget for the last three years.

With respect to R&D, the significance of investing in research for health has been emphasized globally. The Global Ministerial Forum on Research for Health, hosted by the Government of Mali in November 2008, resolved to launch a "Call to Action", setting targets for increasing investments in research for health. The "Call to Action" urges national governments to allocate at least 2 per cent of budgets of ministries of health to research and development agencies, and to earmark at least 5 per cent of funding for research, including support to knowledge translation and evaluation as part of the research process.

Actual expenditure for the health sector has increased over the period. In the 2010/11 financial year, the actual expenditure was Ksh 35 billion up from Ksh 26.9 billion in 2008/09. Although there is an increase in actual overall expenditure, recurrent actual expenditure as a per cent of overall expenditure for the health sector declined from 85 per cent in 2008/09 to 79 per cent in 2010/11.

The health sector has seen an increase in the funds dedicated to development. This can be attributed to the government implementing the facility reform agenda. Over the period 2008/09 to 2010/11, actual expenditure increased from Ksh 4.8 billion to Ksh 9 billion. This is an 87 per cent increase over a period of three years. Overall, unlike the recurrent vote, the development vote has been increasing from a 15 per cent share in 2008/09 to 22 per cent in 2010/11.

Table 5.14: Ministry of Health expenditures, 2008/09–2011/12

Vote	Actual Expenditure			
	2008/09	2009/10	2010/11	2011/12
Recurrent	26,926.50	30,001.00	33,110.70	40,0515.60
Development	4,869.80	7,835.70	9,088.80	18,888.00
Total	31,796.3	37,836.7	42,199.50	58,903.60
Recurrent (%)	85.0	79.3	78.5	67.9
Development (%)	15.0	20.7	21.5	32.1
Total	100.0	100.0	100.0	100.0

Source: Government of Kenya (2012)

A number of donors have continued to support the sector. There is existence of a fairly active mechanism for donor coordination in the form of the Health Sector Coordinating Committee, and the Development Partners on Health Group. Donor activities are coordinated by the External Resources Department (ERD) of the Ministry of Finance, while the line ministries generally keep ERD informed about the implementation of donor projects. The expenditures for the period 2008/09 to 2010/11 are shown in Table 5.15.

Table 5.15: Analysis of externally-funded programmes, 2008/09 to 2011/12

Sub-sector	2008/09	2009/10	2010/11	2011/12
Public Health and Sanitation	1,279.9	3,217.5	6,290	4,457
Medical Services	2,336	2,440	2,098	1,987
Research and Development	3,452	6,155	5,027	6,663

Source: Government of Kenya (2012)

On average, more than 50 per cent of donor funding is used on payment of personnel emoluments. In view of the above, and in order to realize the Kenya Vision 2030 goals, the government needs to increase funding for research, which will specifically address the critical health needs for the country, while the role of donor funding is coordinated and structured to support identified national priorities and critical health needs.

The Kenya Medical Research Institute (KEMRI) receives funding from collaborations and partners and individual scientists through proposals. Donor funding for KEMRI increased from Ksh 3,452 million to Ksh 5,027 million, a 46 per cent increase over the 2008/09 to 2010/11 financial years. The proportion of donor funds as part of the overall KEMRI funds increased from 73.3 per cent within the same period. It is important to note that these are off budgets, which are expended as per the individual donors' budgets – mainly supporting research activities that may not be priority issues for Kenya.

5.10 Expenditure Review by Programmes

This section presents an analysis of sector expenditure by programmes and sub-programmes. In line with the increase in government revenue, actual expenditure in the medical services has increased during the period under review from Ksh 20.7 billion in 2007/08 to Ksh 25.1 billion in 2010/11. Recurrent actual expenditure rose from Ksh 19.3 billion in 2007/08 to Ksh 23 billion in 2010/11. Further, development expenditure increased from Ksh 1.4 billion in 2007/08 to Ksh 2.1 billion in 2010/11. The analysis reveals that:

(a) The recurrent allocations and expenditures generally dominate overall ministry allocations and expenditures. However, it is apparent that there has been gradual decrease of recurrent allocations from 87 per cent of total ministry's allocation in 2007/08 to 76 per cent in 2010/11, indicating the government's commitment to spending on investments (development).

(b) The gross original and revised budgets for the Ministry of Medical Services in the 2010/11 financial year were Ksh 28,815.19 million and Ksh 31,564.2 million, respectively. The actual gross expenditure in 2010/11 was Ksh 25,109.2 million.

(c) Actual development expenditure declined by 45 per cent in the 2010/11 financial year compared to the 2009/10 financial year. Overall expenditure to development vote accounted for 13.9 per cent of total ministry's expenditure in 2009/10 compared to 8.16 per cent in 2010/11.

Much of the ministry's expenditure is recurrent expenditure, with only 8.2 per cent of the total expenditure dedicated to development in 2010/11.

Recurrent expenditure was Ksh 22.8 billion in 2008/09 and Ksh 23.1 billion in 2010/11 while development expenditure in 2010/11 was Ksh 2.05 billion. Since reliance on donor funding for development spending is not a sustainable solution in the long term, there is need to increase government development spending in order to realize the flagship projects as outlined in Kenya Vision 2030.

Table 5.17 shows the breakdown of actual expenditures of the public health sub-sector by

Table 5.16: Analysis of externally-funded programmes, 2008/09–2010/11

Curative Health	Actual Expenditure				
	2007/08	2008/09	2009/10	2010/11	2011/12
Recurrent Budget					
Compensation to Employees	11,395.0	11,849.0	12,370.0	12,318.1	15,567.6
As % Total Recurrent	58.9	51.8	53.6	53.4	56.4
Use of Goods and Services	2,558.0	4,955.8	4,384.4	3,357.7	2,99.6
As % Total Recurrent	13.2	21.7	19.0	14.6	10.9
Grants, Transfers and Subsidies	5,361.0	5,976.9	6,267.4	7,350.2	8,996.6
As % Total Recurrent	27.7	26.2	27.1	31.9	32.6
Acquisition of Non-financial Assets	24.0	72.0	73.9	34.9	23.4
As % Total Recurrent	0.1	0.3	0.3	0.2	0.1
Total Recurrent (Gross)	19,338.0	22,853.7	23,096.5	23,060.9	27,581.20
Development Budget					

Curative Health	**Actual Expenditure**				
	2007/08	2008/09	2009/10	2010/11	2011/12
Compensation to Employees	550.0	254.0	-	-	-0.3
As % of Total Development	39.0	12.9	-	-	-
Use of Goods and Services	88.0	1,054.0	907.4	96.7	73.1
As % of Total Development	6.2	53.4	24.4	4.7	4.2
Grants, Transfers and Subsidies	170.0	204.1	241.0	328.1	290.0
As % of Total Development	12.1	10.3	6.5	16.0	16.7
Acquisition of Non-financial Assets	601.0	463.1	2,573.8	1,623.5	1,370
As % of Total Development	42.7	23.4	69.1	79.3	79.1
Total Development (Gross)	1,409.0	1,975.2	3,722.2	2,048.3	1,733.5
Recurrent and Development Budget					
Compensation to Employees	11,945.0	12,103.0	12,370.8	12,318.1	15,567.3
As % of Total	57.6	48.7	46.1	49.1	53.1
Use of Goods and services	2,646.0	6,009.8	5,291.8	3,454.4	3,066.7
As % of Total	12.8	24.2	19.7	13.8	10.5
Grants, Transfers and Subsidies	5,531.0	6,181.0	6,508.4	7,678.3	9,286.6
As % of Total	26.7	24.9	24.3	30.6	31.7
Acquisition of Non-financial Assets	625.0	535.1	2,647.7	1,658.3	1,394.1
As % of Total	3.0	2.2	9.9	6.6	4.8
Total Expenditure (Gross)	20,747.0	24,828.9	26,818.7	25,109.2	29,314.7

Source: Government of Kenya (2012)

economic categories. Compensation to employees (personal emoluments) accounted for 56 per cent of the total recurrent expenditure during 2010/11, which was a significant decline from 65 per cent in 2009/10. Although expenditure on employee compensation has significantly improved in absolute terms from Ksh 2.5 billion in 2008/09 to Ksh 6.7 billion in 2010/11, in terms of percentage of total recurrent expenditure, it represents a decline of almost 17 per cent. However, while the ministry's spending on personnel emoluments has increased, there is still a shortage of health workers. Apart from this shortage, the other main challenge facing the Ministry is that staff distribution is not aligned to workloads. Majority of the health workers are heavily concentrated in hospitals, while other health centres and dispensaries are staffed well below the norms. This implies that the ministry will continue to experience shortage of human resources, which is likely to hamper service delivery.

Expenditure on goods and services (O&M), grants, transfers and subsidies and acquisition of non-financial assets accounted for 32 per cent, 12 per cent and 0.1 per cent, respectively, in the 2010/11 financial year. The analysis further shows that funds allocated to the use of goods and services (O&M) in actual terms decreased from 33 per cent in 2009/10 to 32 per cent in 2010/11. However, there is a significant increase from the previous year (2008/09), and this shows the ministry's efforts to improve service delivery and to maintain existing facilities, especially the rural health facilities.

User fee (cost sharing revenue) is an important source of financing health services in Kenya, especially in supplementing operations and

Table 5.17: Analysis of expenditure by programme - MoPHS

Preventive and Promotive Health	Actual Expenditure			
	2008/09	2009/10	2010/11	2011/12
Recurrent Budget				
Compensation to Employees	2,511.0	3,924.0	4,824.0	8,243.1
As % Total MoPHS Recurrent	60.0	65.0	48.0	66.3
Use of Goods and Services	607.9	2,006.8	3,799.2	2,714.1
As % of Total MoPHS Recurrent	15.0	33.0	37.8	21.8
Grants, Transfers and Subsidies	1,021.4	83.5	1,414.6	1,427.8
As % of Total MoPHS Recurrent	25.0	1.0	14.1	11.5
Acquisition of Non-financial Assets	25.2	30.2	12.1	49.4
As % of Total MoPHS Recurrent	0.6	0.5	0.1	0.4
Total Recurrent	4,165.5	6,044.5	10,049.8	12,434.4
Total Recurrent per cent of Total	59.0	63.0	58.8	42.0
Development Budget				
Compensation to Employees	154.2	-	1,281.3	2,499.0
As % of Total MoPHS Development	5.0	-	18.2	14.6
Use of Goods and Services	2,141.7	2,288.1	1,567.5	11,514.2
As % of Total MoPHS Development	74.0	63.0	22.3	67.1
Grants, Transfers and Subsidies	312.8	177.5	676.9	1,717.0
As % of Total MoPHS Development	11.0	5.0	9.6	10.0
Acquisition of Non-financial Assets	285.7	1,160.5	3,514.9	1,424.4
As % of Total MoPHS Development	10.0	32.0	49.9	8.3
Total Development	2,894.4	3,626.1	7,040.5	17,154.5
Total Development as a % of Total	41.0	37.0	41.0	58.0
Recurrent and Development Budget				
Compensation to Employees	2,665.2	3,924.0	6,105.3	10,742.1
As % of Total MoPHS	37.8	40.0	35.7	36.3
Use of Goods and Services	2,749.6	4,294.9	5,366.7	14,228.3
As per cent Total MoPHS	38.9	44.4	31.4	48.1
Grants, Transfers and Subsidies	1,334.2	261.0	2,091.5	3,144.8
As % of Total	21.4	2.7	12.2	10.6
Acquisition of Non-financial Assets	310.9	1,190.7	3,527.0	1,473.8
As % of Total	12.3	19.1	20.6	5.0
Total Expenditure	7,059.9	9,670.6	17,090.4	29,589.0

Source: Government of Kenya (2012)

maintenance funding. Cost sharing revenue collections have tripled from Ksh 1.03 billion in 2002/03 to Ksh 3.2 billion in 2010/11. However, cost sharing is also a hindrance to accessing health care especially for the lower end of the population. If these resources were to be pooled, they would provide a more effective way of addressing health care needs in service delivery of the health sector. The development of the draft Health Financing Strategy, since 2009, is aimed at strengthening the pooling of resources under the social health insurance and ensuring their efficient use.

Table 5.18: Registered members of the NHIF, 2006/07–2010/11

Financial Year	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12*
Formal Sector	1,620,000	1,775,390	1,800,000	2,286,205	2,197,940	2,452,146
Informal Sector	201,098	301,106	376,470	555,730	688,746	875,353
Total	1,821,098	2,076,496	2,176,470	2,841,935	2,886,686	3,327,499

Source: Kenya National Bureau of Statistics (Various), Economic Survey * Provisional

5.11 Health Insurance Coverage

National health insurance through the National Health Insurance Fund (NHIF) seems to be the dominant insurance provider in all the 8 provinces. This may be attributed to the fact that contributions to the NHIF are mandatory to all individuals working in the formal sector. In the recent past, there has been a drive to recruit members from the informal sector, and this is gaining popularity.

As shown in Table 5.18, the number of registered members of the NHIF increased by 14.3 per cent from 2.8 million in 2006/07 to 3.2 million in 2010/11. The formal sector contributed the highest share of 78.2 per cent of the total registered membership of NHIF. Over the same period, the informal sector registered a higher membership increase of 26.9 per cent compared to 10.6 per cent in the formal sector.

5.12 Conclusions and Policy Implications

With Kenya's population growing at a rate of 2.67 per cent annually, the population will continue to place a huge demand for health services. Thus, the country must continue expanding maternal and child health services while developing the capacity of the health systems to cater for communicable and non-communicable diseases, which are on the rise.

The government has committed itself to improving the health sector infrastructure. Attaining acceptable standards and norms has implications for staffing, equipment, infrastructure and operating costs across all counties. Kenya's health sector continues to put efforts to deliver quality health services to the population with limited funds.

The prospects for additional funds in the health sector in the medium term are bleak, as available public sources are limited. The medium-term challenge for the health sector is to use available health resources more efficiently to deliver quality services and improve health outcomes across all counties. Rationalizing existing physical and human resources and use of more cost-effective budget principles based on outputs, including an input-based approach, has the potential of improving health outputs and outcomes.

Provision of an optimum and well-managed health workforce with appropriate skills, equitably distributed across the country, is critical in order to achieve quality health care delivery. The National Human Resources for Health Strategic Plan 2009-2012 identifies the required distribution pattern and skills mix. The Plan helps the health sector to set realistic targets in the training and recruitment of health professionals.

At the moment, a considerable portion of the budget is devoted to personnel. Health personnel deployments traditionally have not been based on existing needs and are, therefore, inequitably distributed across regions. Incentives should be provided to deploy health professionals to work in remote rural areas with a shortage of health care personnel.

Budget allocations to the health sector has significantly increased compared to the previous years. The increase in government allocation to the sector shows its commitment towards preventive and promotive health. This trend should be maintained so as to reduce the burden of preventable diseases. The review has also shown that the initiatives by the government have started to yield positive results. For instance, the implementation of the Health Sector Financial Management Information System (IFMIS) has significantly improved the absorption capacity of the sector. This implies that there is potential to improve efficiency in the utilization of budget allocations by exploring other innovative strategies. In particular, there is need for the sector to explore mechanisms for improving efficiency of M&E.

Although the ministry has information on donor commitments that are not reflected in the budget estimates (off budget), the information does not indicate whether these are actual expenditures. For the information to be useful for planning purposes, it would be imperative for the donors and other non-government providers of health services to provide information on actual expenditures and not just their commitments. This will enable the sector to compare the outputs with the inputs.

The analysis shows that budget allocation to personnel emoluments has declined in the 2010/11 financial year. Given that the sector continues to experience severe human resource shortage, the cut in budget allocation may impact negatively on the sector's capacity to deliver services. The sector's intention is to fully implement the planned activities with the allocated funds. Inadequate budget allocation and the deteriorating economic conditions in the country seriously affect implementation of projects and other operations of the sector. Implementation of an income-generation policy is expected to stimulate the expansion of income-generation activities. In addition, delays in disbursement of allocated funds cause delays in the utilization of funds.

Chapter 6

Education and Skills Development

6.1 Introduction

Kenya Vision 2030, which aims at making Kenya a globally competitive and prosperous country by 2030, singles out education and training as one of the levers that will drive Kenya into becoming a middle-income economy. In addition, the Constitution (2010), the Basic Education Act of 2013, and Sessional Paper No. 14 of 2012 on Reforming Education and Training Sectors in Kenya, provide for Free and Compulsory Basic (pre-primary, primary and secondary) Education as a human right to every Kenyan child. Vision 2030 places great emphasis on the link between education and the labour market, the need to create entrepreneurial skills and competencies, and strengthen partnerships with the private sector in investment and provision of education and training in the country. It also recognizes the need for a literate citizenry and sets targets for enhancing adult literacy. This is consistent with the MDG and Education for All (EFA) goals on universal access and completion of education.

According to the Constitution of Kenya, the county governments shall be in charge of pre-primary education and village polytechnics. The national government, through the ministry in charge of education, is responsible for the provision and coordination of education, training, research, education policy formulation and implementation and quality assurance at all levels of learning. Currently, the sector is managed by the Ministry of Education, Science and Technology. The main focus of the ministry has been on increased levels of access, retention, equity, quality, relevance and the overall effectiveness of the education sector. Other policy objectives include exploiting knowledge and skills in science, technology and innovation for global competitiveness.

The performance of the education sector, however, depends on a number of factors, key among them the levels of resource allocation and investment in the sector and the cost of education. This Chapter presents a detailed account of the education sector provision and investment, performance, inequalities and financing issues. The analysis forms a basis for further analyses on investing on human capital across counties, which is presented in Part Four of this report.

6.2 Provision and Investment in Education Services

The number of education institutions increased by 4.6 per cent from 72,902 institutions in 2009 to 76,264 institutions in 2011. Pre-primary education centres increased by 3.3 per cent from 38,247 institutions in 2009 to 39,500 centres in 2011. During this period, pre-primary enrolment increased from 1.7 million to 2.4 million children (Table 6.1). The number of primary schools rose by 7.1 per cent from 26,667 to 28,567 (31% private) while enrolment rose from 8.8 million in 2009 to 9.8 million pupils in 2011. The number of secondary schools increased from 6,971 in 2009 to 7,297 (27% private) in 2011. Secondary school enrolment was 1.47 million in 2009 and 1.76 million in 2011.

Table 6.1: Number of education and training institutions, 2009-2012

School Category	2009	2010	2011	2012
Pre-primary	38,247	38,523	39500	39,758
Public	23,823	23,980	24,588	24,654
Private	14,424	14,543	14,912	15,104
Primary	26,667	27,489	28,567	29,161
Public	18,543	19,059	19,848	20,307
Private	8,124	8,430	8,719	8,854
Secondary	6,971	7,308	7297	8,197
Public	5,019	5,296	5,311	6,188
Private	1,952	2,012	1,986	2,009
Pre-primary teacher training colleges	71	125	122	125
Public	20	20	20	20
Private	51	105	102	105
Primary teachers training colleges	105	110	112	118
Public	20	21	21	21
Private	85	89	91	97
Secondary diploma colleges	3	3	3	3
TIVET institutions	807	818	629	705
Youth polytechnics	754	765	585	647
Institutes of technology	24	24	14	14
Technical training institutes	22	22	26	35
National polytechnics	2	2	2	7
Polytechnic university colleges	2	2	2	2
Universities	31	32	34	35
Public	7	7	7	8
Private	24	25	27	27
Total	72,902	74,408	76,264	78,102

Source: Government of Kenya (Various), Economic Survey

At the tertiary level, enrolments rose from 80,981 in 2009 to 104,173 students in 2011, enrolled in 629 technical training institutions. The number of national polytechnics reduced from 4 to 2 owing to the conversion of Kenya Polytechnic and Mombasa Polytechnic into university colleges, leaving two national polytechnics, namely: Eldoret and Kisumu. In 2011, there were 26 technical training institutes and 14 institutes of technology; 585 youth polytechnics; 21 public primary teachers training colleges, 91 private primary teachers training colleges and 3 secondary teachers training colleges. Enrolment in teachers training colleges increased from 26,324 students in 2009 to 29,571 students in 2011. The number of universities increased from 31 in 2009 to 34 in 2011 (79% private). University enrolment increased from 122,847 students in the 2008/09 academic year to 198,260 students in the 2011/12 academic year. Despite the expansion in formal schooling in the country, issues of capacity for effective management, sustainable financing, increasing demand for schooling and relevance of the curriculum to meet the demands of Vision 2030 and labour market needs must be addressed both at national and county government levels.

Table 6.2: Education expenditure by sector, recurrent and development (%), 2009/10-2011/12

	Recurrent			Develop-ment			Total		
	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12
General Administration and Planning	7.60	6.16	6.83	47.12	31.82	33.84	12.95	8.76	9.76
Primary Education	49.00	41.57	44.10	31.38	12.59	6.93	46.62	38.64	40.06
Teacher Education	0.16	0.11	0.11	0.23	0.50	0.40	0.17	0.15	0.14
Special Education	0.15	0.31	0.23	0.00	0.00	0.04	0.13	0.28	0.21
Early Childhood Education	0.14	0.22	0.20	0.23	0.26	0.11	0.15	0.22	0.19
Secondary Education	27.36	27.17	27.20	2.39	14.35	4.41	23.98	25.87	24.72
Technical Education	4.51	2.95	2.50	6.09	25.42	22.28	4.72	5.23	4.65
University Education	11.07	21.50	18.83	12.55	15.07	31.99	11.27	20.85	20.26
Total (Ksh billion)	138,764.14	178,043.10	190,130.40	21,700.55	20,052.80	23,149.30	160,464.68	198,095.90	213,279.70

Source: Government of Kenya (various); KENAO Audited Appropriation Accounts; * Estimates

6.3 Trends in Public Education Spending

6.3.1 Budgetary allocation by sub-sector

The total budgetary allocation of the education sub-sector over the period under review has seen a dramatic increase from Ksh 160.4 billion in 2009/10 to Ksh 213.3 billion in 2011/12, representing a 32 per cent increase. The primary education sub-sector received the highest proportion of education spending, with its share increasing from 38.6 per cent in 2010/11 to 40.06 per cent in 2011/12. The secondary education sub-sector received 20 per cent of public education spending. Expenditure for the higher education, science and technology sub-sector was on an upward trend during the review period. As can be observed in Table 6.2, the sub-sector's funding for both recurrent and development votes increased from 11.3 per cent to 20.3 per cent in 2011/12. The sector's absorption rates of the voted funds have been considerably high. On average, the education sector has been absorbing over 90 per cent of its budget, thus ensuring that it does not tie funds that could have been used to fund other vital government activities.

The total allocation to the Teachers Service Commission (TSC) has been increasing over the years from Ksh 81 billion in the financial year 2008/09 to Ksh 99 billion as at 2010/11, an increase of Ksh 18 billion. This is attributed to: the implementation of the negotiated salary award for teachers amounting to Ksh 13.8 billion (phase one and two); promotion of teachers through teacher proficiency courses, attainment of higher qualifications and through interviews for job group M and above; normal annual salary increments for teachers and secretariat staff; and employment of 6,000 additional teachers in the year 2008.

It is important to note that a big percentage of the Commission's budget is made up of recurrent expenditure, 97.5 per cent of which is exclusively teachers' salaries. Over the years, development expenditure has been declining from Ksh 350 million in 2008/09 to Ksh 30 million as at 2010/11. This is due to the completion of the TSC building at the end of 2009. The trends in expenditure allocation are summarized in Table 6.3.

Table 6.3: Analysis of Teachers Service Commission's total expenditure, 2008/09 – 2010/11 (Ksh 'million)

	Actual Expenditure		
	2008/09	2009/10	2010/11
Recurrent	80,878	89,591	99,441
Development	305	60	11
Total	81,183	89,651	99,452
Recurrent as % of Total	99.62	99.93	99.99
Development as % of Total	0.38	0.07	0.01

Source: Education Sector Report (2013)

6.3.2 Coverage of higher education loans

The Higher Education Loans Board (HELB) disburses loans and awards bursaries and scholarships to university students in public and private universities. The total expenditure, including operations for HELB, was Ksh 2 billion and Ksh 3.4 billion in 2008/09 and 2010/11, respectively. For HELB's capitation on student loans and bursary was Ksh 85 million in 2009/10 and Ksh 82.3 million in 2010/11 despite increase in the cost of living and the number of students admitted into universities.

Table 6.4 shows the loans, bursaries and scholarships administered by HELB. They include student undergraduate and post-graduate loans, bursaries and scholarships. The number of beneficiaries for undergraduate loans increased from 42,563 in the 2007/08 academic year to 77,141 students in 2010/11.

Analysis of recurrent expenditure for the education sector shows that recurrent expenditure has been on the increase in the range of between 86.5 per cent in 2009/10 to 89.1 per cent in 2011/12. Development expenditure was estimated at 13.5 per cent in 2009/10 and 10.9 per cent in 2011/12. The decline can partly be attributed to the withdrawal of direct donor budgetary support to the sector during the review period and the increase in allocation towards

Table 6.4: Beneficiaries of university loans and bursaries by HELB, 2007/08-2010/11

	Undergraduate Loans		Post-graduate Loans		Bursaries		Scholarships	
11 Year	No. of benefici-aries	Total amount (Ksh mil-lion)	No. of benefici-aries	Total amount (Ksh million)	No. of benefici-aries	Total amount (Ksh million)	No. of benefici-aries	Total amount (Ksh million)
2007/08	42,563	1,949	980	121.53	15,759	82.4	36	10.45
2008/09	54,025	2,007	1,176	144.66	16,109	80.8	39	11.3
2009/10	69,383	3,112	1,279	157.70	18,996	85.4	37	11.15
2010/11	77,141	3,434	976	119.20	17,031	82.3	50	15.00

Source: Higher Education Loans Board data set free primary and secondary education schooling, including spending on personnel emoluments.

6.3.3 Education spending relative to GDP

Overall, education spending as a percentage of GDP increased from 6.5 per cent in 2009/10 to 7.5 per cent in 2011/12. This comprises of 34.9 per cent of total government outlays in 2011/12 up from 27.6 per cent in 2009/10 (Table 6.5). These funds are mainly sourced through taxes (through the central government, CDF, and LATF).

Table 6.5: Spending in education as percentage of GDP and total outlays, 2009/10-2011/12 (Ksh billions)

	2009/10	2010/11	2011/12
Total Ministry of Education % of GDP	6.5	7.1	7.5
Total Ministry of Education % Government total expenditure	27.6	33.2	34.9
Total Ministry of Education recurrent % Government total recurrent	33.2	41.6	43.3
Ministry of Education development % of Government development	13.2	11.9	13.4
Ministry of Education recurrent % of Ministry of Education expenditure	86.5	89.9	89.1
Ministry of Education development % of Ministry of Education expenditure	13.5	10.1	10.9
A-I-A (External financing) % of Ministry of Education	0.9	0.8	0.7

Source: Government of Kenya (Various); KENAO Appropriation Accounts

The education burden on households is high despite free primary and secondary education schooling. Although estimates for the extent of contributions by households and non-public entities are not available, according to the KIHBS 2005/06, households spend an average of Ksh 2,879 and Ksh 6,195 on public primary and secondary school education per child per annum. Assuming the primary school enrolment of 9.8 million and 1.76 million for the respective levels, then households could be spending a total of Ksh 28 billion and Ksh 10 billion at the respective levels per annum. This represents the burden of schooling on households despite free basic education schooling. Households finance private education at all levels, and costs in these institutions are even higher than for public learning institutions. Further, the sector receives unreported direct contributions to schools from non-public entities and households in the form of cash and in-kind contributions. Households (through user fees) finance pre-primary, boarding costs and non-salary inputs at tertiary level. They also finance all indirect costs (such as uniforms, transportation, meals, etc.) of schooling at all levels of education. The sector also gets a huge contribution from non-public entities, including NGOs, FBOs, individuals and corporate organizations whose contributions are in the form of improvement of school infrastructure and support to needy students. However, most of this off-budget funding for the sector is rarely captured in the aggregate education spending for the country. All these costs make education expensive on the part of both government and households, and have contributed to unsatisfactory performance and high inequalities in education across regions.

6.4 Performance of the Education Sector

6.4.1 Access and participation

There have been various interventions aimed at aligning the education sector to the Constitution and Vision 2030, as well as aligning to international commitments such as the MDGs. These

Table 6.6: Gross enrolment rates (GER) and net enrolment rates (NER), 2009-2012

School Level	Enrolment Type	Gender	2009	2010	2011	2012
Pre-primary	Gross Enrolment Rate	Both sexes	60.6	60.9	65.6	66.3
	Net Enrolment Rate	Both	49.0	50.0	52.4	53.3
Primary	Gross Enrolment Rate	Male	112.8	109.8	115.0	115.4
		Female	107.2	109.9	115.1	115.9
		Both	110.0	109.8	115.0	115.8
	Net Enrolment Rate	Male	93.6	90.6	94.9	95.0
		Female	92.1	92.3	96.6	95.7
		Both	92.9	91.4	95.7	95.3
	Gender Parity Index		0.98	0.96	0.96	0.97
	Primary completion rate		83.2	76.8	74.6	80.3
	Transition rate from primary to secondary		66.9	72.5	73.3	76.6
Secondary	Gross Enrolment Rate	Male	49.0	50.9	51.0	51.0
		Female	41.8	46.3	46.8	47.0
		Both	45.3	47.8	48.8	49.3
	Net Enrolment Rate	Male	36.5	38.0	32.6	32.6
		Female	35.1	38.9	33.1	33.5
		Both	35.8	32.0	32.7	33.1
	Gender Parity Index		0.96	1.02	1.01	1.01

Source: Government of Kenya (2013)

interventions have resulted into the expansion of the education sector, including improving access and equity in education; improving quality, transition and relevance; and deepening integration of science and technology in the sector. Overall, all sectors of education recorded remarkable increase in access and participation rates (Table 6.6).

6.4.2 Early childhood development and education

Enrolment in the Early Childhood Development and Education (ECDE) sub-sector increased from 1.69 million children (880,000 boys and 810,000 girls) in 2007 to 1.914 million (967,544 boys and 946,678 girls) in 2009 and further to 2.13 million (1,100,890 boys and 1,092,181 girls) in 2010 and 2.37 million in 2011.

The Gross Enrolment Rate (GER) increased from 60.2 per cent (61.6% for boys and 58.7% for girls) in 2009 to 60.9 per cent (60.3% for boys and 61.4% for girls) in 2010 and 66.3 in 2012. The NER increased from 42.1 per cent (43.1% for boys and 41.1% for girls) in 2007 to 49.0 in 2009 and further to 53.3 in 2012.

However, there are disparities in access and participation levels across the country and in some of the regions. Low participation in some regions can be attributed to low uptake of pre-primary schooling as children directly join primary schools without the relevant background, and this increases repetition and drop out levels as a result of poor academic performance.

Table 6.7: ECDE NER by county, 2009

	County	Male	Female	Total		County	Male	Female	Total
1	Nyeri	61.6	61.9	61.8	25	Isiolo	42.1	41.2	41.7
2	Kiambu	60.8	60.9	60.8	26	Vihiga	41.3	42.0	41.7
3	Kisumu	59.6	61.0	60.3	27	Samburu	42.1	39.8	40.9
4	Nairobi	57.4	58.0	57.7	28	Machakos	40.1	40.7	40.4
5	Mombasa	57.2	57.6	57.4	29	Trans Nzoia	39.3	41.2	40.2
6	Homa Bay	56.3	57.9	57.1	30	Murang'a	39.3	39.8	39.5
7	Nyandarua	54.8	55.0	54.9	31	Busia	35.9	37.9	36.9
8	Nakuru	54.2	55.3	54.7	32	Kakamega	35.1	37.7	36.4
9	Uasin Gishu	51.7	52.9	52.3	33	Kwale	34.7	35.9	35.3
10	Migori	51.0	52.1	51.5	34	Bungoma	33.5	35.8	34.7
11	Laikipia	51.4	51.5	51.4	35	Meru	33.5	34.5	34.0
12	Taita Taveta	50.6	51.9	51.2	36	Tharaka Nithi	33.8	34.2	34.0
13	Nandi	49.9	51.6	50.7	37	Embu	32.6	33.1	32.8
14	Nyamira	48.3	48.8	48.5	38	Makueni	31.5	32.4	32.0
15	Elgeyo Marakwet	47.9	49.1	48.5	39	Kitui	30.3	32.1	31.2
16	Kisii	47.9	48.6	48.2	40	Narok	29.5	29.6	29.6
17	Kericho	47.0	48.6	47.7	41	Tana River	29.9	28.7	29.3
18	Kirinyaga	47.8	46.8	47.3	42	West Pokot	28.9	29.5	29.2
19	Siaya	45.1	47.0	46.0	43	Marsabit	24.4	24.2	24.3
20	Baringo	44.0	46.2	45.0	44	Turkana	19.0	19.0	19.0
21	Lamu	43.2	45.0	44.1	45	Garissa	6.8	6.7	6.8
22	Bomet	41.9	42.7	42.3	46	Mandera	6.2	6.3	6.3
23	Kajiado	42.1	42.0	42.1	47	Wajir	5.2	5.0	5.1
24	Kilifi	41.8	42.2	42.0	48	National	41.3	42.3	41.8

Source: Ministry of Education EMIS data

6.4.3 Primary education

The continued implementation of Free Primary Education (FPE) from 2003 has led to improvement in access to primary school education. The number of pupils in formal primary schools increased from 5.9 million in 2002 to 8.8 million (4.5 million boys and 4.3 million girls) in 2009, an increase of 60 per cent. In 2010, the enrolment was 9.38 million (4.75 million boys and 4.63 million girls), an increase of 6.6 per cent compared to 2009 and 9.86 million in 2011.

Figure 6.1: Primary school gross enrolment rate (GER) and net enrolment rate (NER)

Source: Ministry of Education EMIS, and Government of Kenya (2013)

Table 6.8: Primary school NER by county, 2009

		Male	Female	Total			Male	Female	Total
1	Murang'a	93.2	93.7	93.4	25	Trans Nzoia	81.8	84.3	83.1
2	Nyeri	92.1	93.1	92.6	26	Homa Bay	82.2	83.7	82.9
3	Kirinyaga	91.3	92.4	91.8	27	Nandi	80.9	84.7	82.8
4	Embu	60.4	92.1	91.3	28	Kakamega	81.1	83.9	82.5
5	Kiambu	90.4	91.2	90.8	29	Migori	81.7	83.3	82.5
6	Nyandarua	89.7	91.2	90.4	30	Busia	81.0	83.3	82.2
7	Machakos	89.4	90.7	90.1	31	Mombasa	80.6	81.6	81.1
8	Makueni	88.7	90.4	86.6	32	Laikipia	80.6	80.9	80.8
9	Bomet	87.9	89.6	88.7	33	Lamu	74.4	75.1	74.7
10	Tharaka Nithi	87.3	89.1	88.2	34	Kajiado	73.2	73.0	73.1
11	Kericho	87.4	89.0	88.2	35	Narok	69.5	69.7	69.6
12	Nyamira	87.6	88.7	88.1	36	Kwale	69.1	69.9	69.5
13	Vihiga	86.1	88.9	87.5	37	Kilifi	67.9	69.0	68.5
14	Elgeyo Marakwet	86.3	88.3	87.3	38	Baringo	67.2	69.8	68.5
15	Nairobi	86.6	87.2	86.9	39	Isiolo	63.2	63.7	63.5
16	Kisii	85.9	87.4	86.7	40	Tana River	53.8	51.5	52.7
17	Taita Taveta	85.6	87.3	86.5	41	West Pokot	50.2	52.1	51.1
18	Nakuru	85.1	86.8	85.9	42	Marsabit	49.0	47.7	48.4
19	Uasin Gishu	84.0	86.2	85.1	43	Mandera	42.9	40.6	41.9
20	Meru	84.1	85.9	85.0	44	Samburu	43.1	39.5	41.3
21	Siaya	84.0	85.7	84.9	45	Wajir	35.9	32.9	34.6
22	Bungoma	83.2	85.7	84.5	46	Garissa	35.0	32.9	34.1
23	Kisumu	83.2	84.8	84.0	47	Turkana	24.7	24.6	24.6
24	Kitui	82.3	84.9	83.6	48	National	90.6	92.3	91.4

Source: Ministry of Education EMIS

The Gross Enrolment Rate (GER) increased from 108.9 per cent (118% and 106% for boys and girls, respectively) in 2007 to 110.0 per cent (112.8% and 107.2% for boys and girls, respectively) in 2009 and dropped slightly to 109.8 per cent (109.8% and 109.9% for boys and girls, respectively) in 2010. The Net Enrolment Rate (NER) increased from 91.6 per cent (94% and 89.0% for boys and girls, respectively) in 2009 and then dropped marginally to 91.4 per cent (90.6% and 92.3% for boys and girls, respectively) in 2010. The country still faces regional disparities with low enrolments despite this impressive performance. There are gender and regional disparities in access and participation in primary school education.

Garissa and Turkana have especially low NERs of 34 per cent and 25 per cent, respectively, against a national average of 91.4 per cent in 2010 and 95.7 per cent in 2012. In general, the primary school NER for boys was higher than that of girls in most counties, except in some counties in Central and Eastern regions.

6.4.4 Primary school completion and transition levels

The primary school completion rate is computed as the number of Standard 8 graduates as a proportion of the 13 year olds. The pupil completion rate stood at 81.0 per cent (86.5% and 75.7% for boys and girls, respectively) in 2007 but dropped to 79.8 per cent in 2008 and then increased to 83.2 per cent in 2009. In 2010, the pupil completion rate dropped to 76.8 per cent (79.2% and 74.4% for boys and girls, respectively), before further dropping to 74.6 per cent in 2011 (Figure 6.2).

The transition rate from primary to secondary school has been increasing over the years, from 59.6 per cent (56.5% for males and 63.2% for females) in 2007 to 66.9 per cent (64.1% for males and 69.1% for females) in 2009, further increasing to 72.5 per cent (68.9% for males and 75.3% for females) in 2010 and 73.3 per cent in 2011.

Figure 6.2: Primary completion rate (PCR) and primary to secondary

Source: Ministry of Education EMIS; and Government of Kenya (Various), Economic Survey

6.4.5 Secondary education

The secondary school GER increased from 38.0 per cent (41.4% for boys and 34.6% for girls) in 2007 to 45.3 per cent (49.0% for boys and 41.8% for girls) in 2009. In 2010, the GER increased to 47.8 per cent (50.9% for boys and 46.3% for girls). The NER recorded an increase from 28.9 per cent (29.8% for boys and 27.9% for girls) in 2007 to 35.8 per cent (36.5% for boys and 35.1% for girls) in 2009. In 2010, the NER dropped to 32.0 per cent (32.4% for boys and 32.9% for girls). The Gender Parity Index improved from 0.94 in 2008 to 0.96 in 2009 and in 2011, it is in favour of girls at 1.01. However, there were disparities across counties, with Turkana County recording the lowest NER of 25 per cent while Kiambu County recorded a high of 50 per cent. The national average was 24 per cent in 2009/10.

6.4.6 University and tertiary (TIVET) education

The annual admission to public universities under the Joint Admissions Board (JAB) increased by 31.6 per cent from 12,261 in 2007/08 to 16,134 in 2008/09, by 24.4 per cent to 20,073 in 2009/10 and by 20.6 per cent to stand at 32,820 in the 2010/11 academic year. The achievement was as a result of increased capacity in the constituent colleges and special consideration to vulnerable groups. Currently, there are 7 public universities, 15 constituent colleges and 23 private universities (11 chartered, 9 with letters of interim authority and 3 registered). The total expenditure on university education and higher education support services sub-programmes was Ksh 18,589 million and Ksh 2,340 million for recurrent and development expenditures, respectively. Enrolment stands at 183,497, and is expected to increase drastically in the current year with the planned accelerated intake of the 2009 and 2010 cohorts, and the creation of the Open University and the Pan African University. Enrolment and retention in universities were further enhanced through increased provision of bursaries. A total number of 8,386 students were awarded bursaries amounting to Ksh 380 million in 2009/10.

The number of fully registered Technical, Industrial, Vocational, Entrepreneurship Training (TIVET) institutions rose from 180 in 2009/10 to 411 in 2011/12. Additionally, the number of provisionally-registered institutions increased from 200 in 2009/10 to 302 in 2011/12. Consequently, total enrolment in TIVET programmes increased

Table 6.9: Secondary school NER by county, 2009

		Male	Female	Total			Male	Female	Total
1	Turkana	3.8	3.1	3.5	25	Kericho	20.4	22.4	21.4
2	West Pokot	5.4	6.0	5.7	26	Meru	19.1	25.3	22.3
3	Garissa	7.2	6.5	6.9	27	Taita Taveta	20.7	25.6	23.1
4	Wajir	7.5	6.8	7.2	28	Homa Bay	24.0	22.6	23.3
5	Tana River	8.2	6.6	7.4	29	National	22.2	25.9	24.0
6	Samburu	7.5	8.1	7.8	30	Vihiga	22.5	27.8	25.2
7	Mandera	9.2	8.3	8.9	31	Uasin Gishu	23.8	29.9	26.9
8	Kwale	8.7	9.6	9.1	32	Kajiado	25.0	28.9	27.0
9	Marsabit	10.0	8.8	9.4	33	Makueni	24.2	30.4	27.2
10	Kilifi	10.6	10.4	10.5	34	Tharaka Nithi	23.9	30.6	27.2
11	Narok	9.9	11.3	10.6	35	Kisumu	28.1	28.3	28.2
12	Busia	16.7	15.9	16.3	36	Machakos	26.2	32.5	29.3
13	Lamu	15.6	17.3	16.4	37	Nakuru	29.7	34.9	32.3
14	Isiolo	16.6	16.9	16.7	38	Mombasa	33.6	31.5	32.5
15	Kitui	15.0	19.0	17.0	39	Laikipia	30.1	35.1	32.5
16	Bungoma	15.8	19.5	17.7	40	Embu	28.3	37.0	32.6
17	Baringo	16.2	21.0	18.5	41	Nyandarua	31.2	39.4	35.2
18	Nandi	16.2	21.7	18.9	42	Kisii	34.4	36.0	35.2
19	Migori	19.7	18.8	19.2	43	Kirinyaga	34.0	42.1	38.0
20	Kakamega	17.5	21.0	19.3	44	Murang'a	36.0	42.1	39.0
21	Elgeyo Marakwet	17.4	22.2	19.8	45	Nyamira	37.9	43.2	40.5
22	Siaya	19.1	20.5	19.8	46	Nyeri	42.5	50.3	46.3
23	Bomet	17.9	22.1	20.0	47	Nairobi	49.0	47.2	48.0
24	Trans Nzoia	18.7	21.9	20.3	48	Kiambu	47.5	52.4	50.0

Source: Ministry of Education EMIS

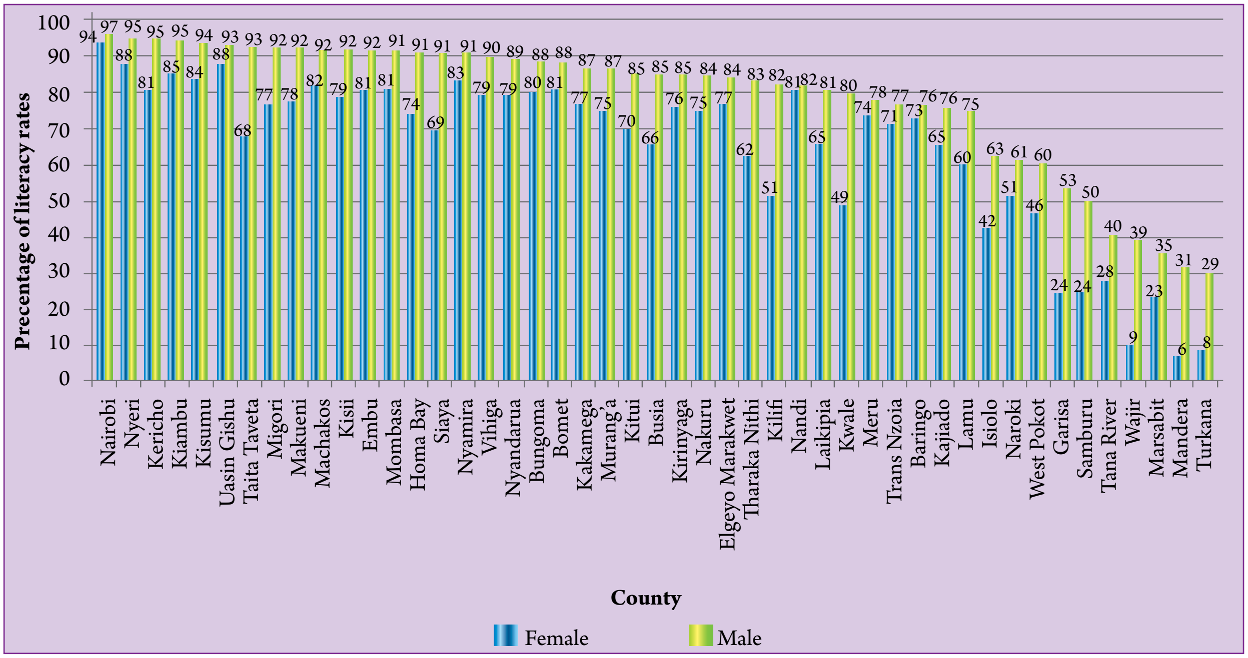
from 36,586 in 2009/10 to 79,114 in 2010/11. The number of government-sponsored students admitted to public universities per year increased from 16,134 in 2009/10 to 32,648 in 2011/12 and the beneficiaries of bursaries increased from 71,349 in 2009/10 to 95,198 in 2011/12 (Government of Kenya, 2011, Economic Survey).

6.5 Education Outcomes

6.5.1 Adult Literacy

The Medium Term Plan for Kenya's Vision 2030 recognizes the need to have literate citizens and sets a target of increasing the adult literacy rate from 74 per cent in 2007 to 80 per cent by 2012. However, Figure 6.3 shows the extent of vertical and horizontal inequality in literacy across gender and counties. The figure illustrates the disadvantage of women across all the counties, their greatest attainments coming in Nairobi and, surprisingly, Uasin Gishu and Nandi counties. Figure 6.3 also shows that in Wajir, Turkana, Samburu and Garissa, as well as Mandera counties, females are most disadvantaged with respect to literacy. The figure also illustrates the horizontal disparities in literacy levels across counties. Nairobi County had the highest male and female rates at 97 per cent and 94 per cent, respectively, while Turkana (29%) and Mandera (6%) had the lowest male and female rates.

Figure 6.3: County distribution of literacy by gender



Source: Kenya National Bureau of Statistics, KIHBS (2006)

From a policy perspective, improving literacy rates across counties will require not only increasing enrolments but also a concerted effort to reach the non-literate population that is beyond the school-going age bracket. Both the national and county governments would need to include in their strategic plans and budgets, programmes for combating illiteracy levels while providing opportunities for those who have totally missed formal education opportunities.

6.5.2 Learning achievements

Another measure of education outcomes is performance in summative examinations and learning achievements. KCPE examination candidates increased by 6.7 per cent from 727,100 in 2009 to 776,214 in 2011 (Table 6.10). However, the aggregate mean score has remained relatively low at about 53 per cent or average mean score of C. This is a major policy issue since majority of the learners have not attained requisite skills at this level of schooling. In 2011, it was only in Science and Religious Education where the mean score was over 60 per cent. Mean performance in languages (English Language, Composition and Kiswahili Lugha) was below 50 per cent.

Further, there are regional variations in KCPE performance across counties, with only 23 counties attaining a mean score of between 300 and 250 marks against the maximum possible of 500 (Figure 6.4). The data further indicates that 22 counties attained mean scores of between 200 and 250 marks. Two counties recorded mean scores of less than 150 marks. Learning achievement is a major policy concern and has implications on progression to post-primary school levels.

6.5.3 Primary school education numeracy and reading competencies

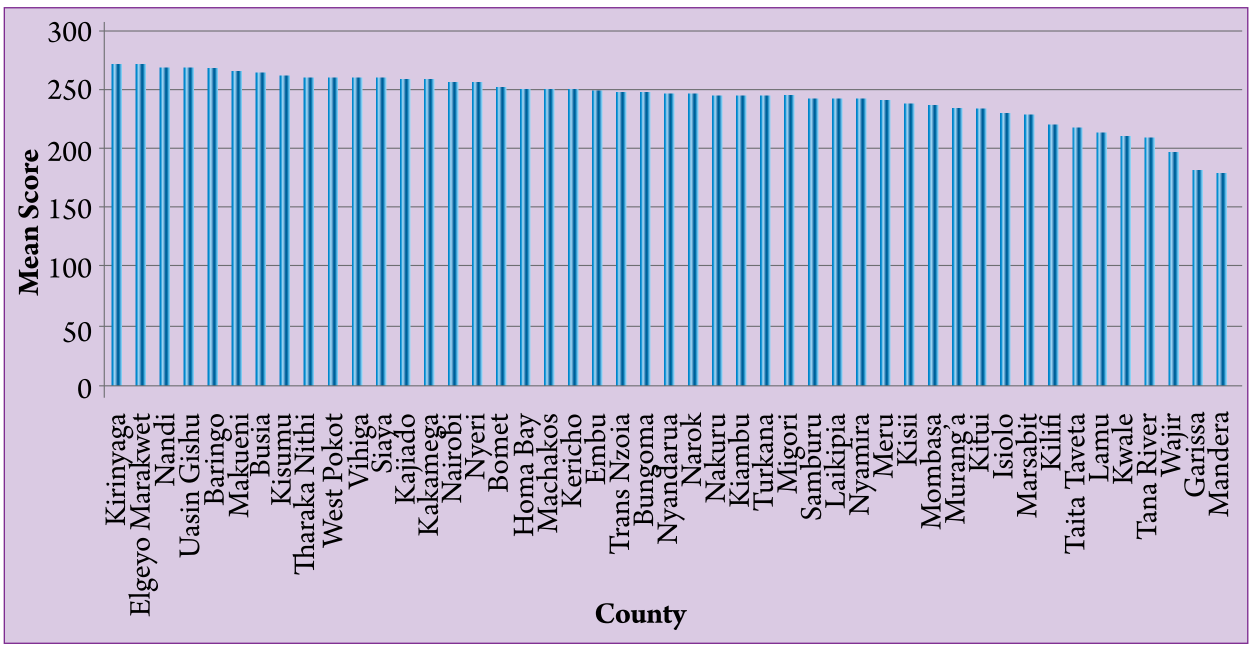
Kenya is a member of the Southern and Eastern Africa Consortium for Monitoring Education Quality (SACMEQ). Other countries include

Table 6.10: KCPE performance and candidates, 2009-2011

Number of candidates	2009	2010	2011	2012
Male	381,600	388,221	400,814	415,620
Female	345,500	357,859	375,400	369,310
Total	727,100	746,080	776,214	811,930
Subject	Mean Score (%)			
English Language	45.76	49.12	47.10	48.16
English Composition	40.48	42.70	42.45	42.43
Kiswahili Lugha	57.28	52.76	41.46	46.38
Kiswahili Insha	53.68	50.30	54.68	54.98
Mathematics	49.56	53.80	52.18	56.30
Science	59.92	60.86	67.48	62.76
Social Studies	62.42	64.93	56.32	60.87
Religious Education	61.60	60.07	62.45	75.75
National Mean score	53.84	54.32	53.02	55.95

Source: Government of Kenya (2013)

Figure 6.4: KCPE performance mean scores by county, 2012



Source: Kenya National Examination Council (2013) data set

Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia, Zanzibar and Zimbabwe. The Consortium has so far undertaken three monitoring surveys (in 1997, 2000 and 2007) focusing on Standard 6 pupils and their teachers. According to the SACMEQ III Survey of 2007, 8 competency levels and 8 Mathematics/Numeracy competency levels were set (Table 6.11).

Table 6.11: Details on competency levels and required competencies

Level	Skill	Details on Required Competencies
	Reading	
1	Pre-reading	Matching of words and pictures involving concrete concepts; everyday objects and following short, simple written instructions
2	Emergency reading	Matching of words and pictures involving prepositions and abstract concepts; using the cuing system to interpret phrases by reading on
3	Basic reading	Interpreting meaning in a short and simple text by reading on or reading back
4	Reading for meaning	Reading on or reading back in order to link and interpret information located in various parts of the text
5	Interpretive reading	Reading on and reading back in order to combine and interpret information from various parts of the text in association with external information that completes and contextualizes meaning
6	Inferential reading	Reading on and reading back through longer texts in order to combine information from various parts of the text so as to infer the writer's purpose
7	Analytical reading	Locating information in longer texts by reading on and reading back in order to combine information from various parts of the text so as to infer the writer's personal beliefs
8	Critical reading	Locating information in a longer text by reading on and reading back in order to combine information from various parts of the text in order to infer and evaluate what the writer assumed about both topic and characteristics of the reader
	Mathematics	
1	Pre-numeracy	Applying single-step addition or subtraction operations. Recognizing simple shapes. Matching numbers and pictures. Counting whole numbers
2	Emergency numeracy	Applying two-step addition or subtraction operations involving carrying, checking, or conversion of pictures to numbers. Estimating the length of familiar objects. Recognizing common two-dimensional shapes
3	Basic numeracy	Translating verbal information presented in a sentence, simple graph or table using one arithmetic operation in several repeated steps. Translating graphical information into fractions. Interpreting place values of whole numbers to thousands. Interpreting simple common everyday units of measurement
4	Beginning numeracy	Translating verbal or graphical information into simple arithmetic problems. Using multiple, different arithmetic operations (in the correct order) or whole number, fractions, and/or decimals
5	Competent numeracy	Translating verbal, graphical, or tabular information into an arithmetic form in order to solve a given problem. Solving multiple-operation problems using the correct order of arithmetic operations. Converting basic measurement units from one level of measurement to another.

Level	Skill	Details on Required Competencies
6	Math-ematically skilled	Solving multiple-operation problems involving fractions, ratios and decimals. Translating verbal and graphical representation information into symbolic, algebraic and equation forms in order to solve a given mathematical problem. Checking and estimating answers using external knowledge
7	Concrete problem solving	Extracting and converting information from tables, charts, visual and symbolic presentations in order to identify and then solve multi-step problems
8	Abstract problem solving	Identifying the nature of an unstated mathematical problem embedded within verbal or graphical information, and then translating this into symbolic, algebraic, or equation forms in order to solve the problem

Source: Hungi et al. (2010)

The national reading mean score was 543.1, with Nairobi recording a high of 622.1 and Western recording a low of 497.3 using the 2007 survey data (Table 6.12). However, only 60.6 per cent of the learners attained level 5-8 reading competencies. Most learners (21.8%) had only attained level 5 reading competencies while only 6.4 per cent attained level 8 competencies on critical reading, including locating information in a longer text by reading on and reading back to combine information from various parts of the text in order to infer and evaluate what the writer assumed about both topic and characteristics of the reader.

According to the data presented in Table 6.13, the overall Mathematics or Numeracy mean score was 557, with Nairobi recording a high of 610 and Western recording a low of 549.2. Only 29.5 per cent of the learners attained level 5-8 numeracy competencies. Majority of the learners (32.1%) had only attained level 4 of numeracy competencies while only 1.4 per cent attained level 8 competencies on abstract problem solving, including identification of the nature of an unstated mathematical problem embedded within verbal or graphical information, and then translating this into symbolic, algebraic, or equation forms in order to solve the problem.

Table 6.12: Percentage of pupils reaching reading competency level (%), 2007

	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7	Level 8	% level 5-8	Mean score
Central	1.9	4.2	9.7	14.2	16.7	18.2	23.4	11.7	70.0	574.3
Coast	0.5	3.9	8.0	22.3	24.5	20.2	14.4	6.2	65.3	553.8
Eastern	1.8	3.6	9.1	20.9	23.0	22.6	12.7	6.2	64.5	550.6
Nairobi	0.2	2.0	2.8	11.0	15.2	19.6	25.8	23.3	83.9	622.1
North Eastern	4.9	5.6	9.9	16.6	15.1	19.5	14.8	13.6	63.0	560.4
Nyanza	2.4	3.7	9.6	19.5	25.3	21.6	14.3	3.6	64.8	545.1
Rift Valley	1.9	7.9	14.5	21.0	22.9	17.1	9.6	5.0	54.6	527.5
Western	5.5	10.4	19.7	22.6	20.4	12.6	7.6	1.3	41.9	497.3
National	2.3	5.7	11.8	19.6	21.8	18.7	13.7	6.4	60.6	543.1

Source: Hungi et al. (2010)

Table 6.13: Percentage of pupils reaching Mathematics competency level (%), 2007

Numeracy	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7	Level 8	% level 5-8	Mean score
Central	0.4	8.4	24.7	26.4	19.3	14.6	4.1	2.0	40.0	574.4
Coast	0.4	4.2	26.4	34.7	19.2	10.4	2.4	2.4	34.4	569.8
Eastern	0.8	7.0	24.2	35.5	14.7	12.8	3.3	1.7	32.5	569.2
Nairobi	0.5	5.9	16.1	27.9	18.0	15.4	8.5	7.8	49.7	610.0
North Eastern	1.0	11.1	17.2	23.5	17.1	13.2	7.5	9.3	47.1	600.2
Nyanza	0.2	10.0	26.0	36.6	16.4	8.5	1.5	0.7	27.1	555.0
Rift Valley	0.5	10.8	29.7	33.0	14.8	8.7	2.1	0.5	26.1	549.2
Western	1.2	22.6	33.9	26.8	10.1	5.3	0.1	0.0	15.5	516.1
National	0.6	10.6	27.1	32.1	15.5	10.1	2.5	1.4	29.5	557.0

Source: Hungi et al. (2010)

Cross- analysis shows that Kenyan Standard 6 pupils perform better than their peers from SACMEQ countries in reading and numeracy competency tests. The results from the SACMEQ (2007) survey show that Kenyan Standard 6 learners perform relatively well on both reading and Mathematics tests. Kenya (20.1%) ranked 4th after Mauritius, Seychelles and Tanzania on reading competency, measured as the percentage of Standard 6 pupils reaching satisfactory reading competency levels 5-8, described in Table 6.14. Similarly, Kenya (3.9%) ranked 2nd after Mauritius in terms of percentage of Standard 6 pupils reaching Mathematics competency levels of 5-8.

6.5.4 Learning outcomes at secondary school level

KCSE candidature increased from 333,516 in 2009 to 410,586 in 2011. However, about 70 per cent of these candidates do not achieve minimum grades considered desirable for admission into the university or other middle-level colleges, notably grade C+ and above for university education. Only 6.7 per cent attained B+ and above in 2011. The mean score is particularly low for female candidates.

County-level analysis shows that most counties' performance index was below 40 out of a maximum of 84 (assuming a student attained an A grade of 12 points in the best 7 subjects). Samburu County recorded the highest performance index of 38.2 followed by West Pokot (37.4) while Tana River recorded a low of 19.7 next to Mandera County (20.7). Only 10 counties recorded a mean performance index of 35 and above, which is equivalent to a mean grade of C-. Clearly, performance in KCSE is low across the country and contributes to the low progression rates from secondary school to the university.

6.5.5 Transition from secondary school to university

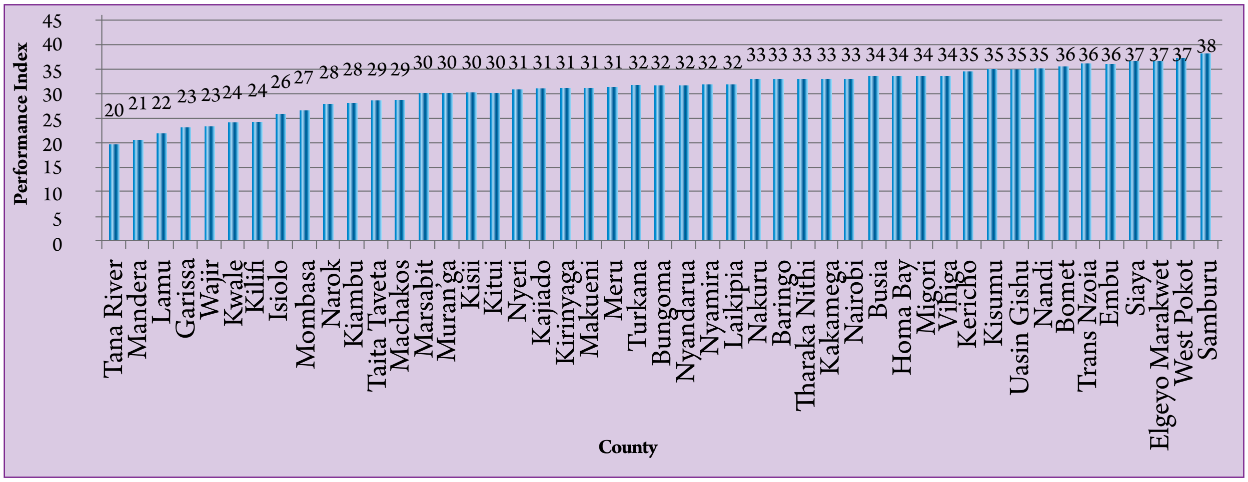
Although the transition rate from secondary school to the university has slightly improved due to increased enrolment of module II students, it is still below 40 per cent. A total of 62,853 students qualified for admission to universities in the academic year 2008/09, out of which 16,134 (25.7%) were admitted. Admissions for the 2008/09 academic year increased to 16,134, constituting a 50 per cent increase compared to 10,218 admitted in 2007/08. This translates to 25.7 per cent of the 62,853 students who had qualified for admission,

Table 6.14: Cross-country analysis of learning achievements

Cross-Country	Pupil Reading Score	Pupil Numeracy Score	Percentage of Pupils with Level 7 and 8 Reading Competencies	Percentage of Pupils with Level 7 and 8 Numeracy Competencies
Botswana	534.6	520.5	19.5	1.3
Kenya	543.1	557.0	20.1	3.9
Lesotho	467.9	476.9	3.4	0.1
Malawi	433.5	447.0	0.61	0.0
Mauritius	573.5	623.3	37.7	22.8
Mozambique	476	483.8	3.0	0.3
Namibia	496.9	471.0	9.3	0.6
Seychelles	575.1	550.7	37.2	3.7
South Africa	494.9	494.8	16.8	2.5
Swaziland	549.4	540.8	11.9	0.3
Tanzania	577.8	552.7	33	3.5
Uganda	478.7	481.9	4.6	0.2
Zambia	434.4	435.2	2.7	0.1
Zanzibar	536.8	489.9	20.4	0.1
Zimbabwe	507.7	519.8	16.2	3.5
SACMEQ III	512	509.7	15.9	2.9

Source: Hungi et al. (2010)

Figure 6.5: KCSE performance index by county, 2012



Source: Kenya National Examinations Council (2013)

Table 6.15: Performance in KCSE, 2009-2011

KCSE Grade	2009			2010			2011					
2012												
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
A	629	301	930	934	632	1,566	1,315	615	1,930	1,277	698	1,975
A-	3,035	1,387	4,422	4,425	2,140	6,565	6,322	2,741	9,063	5,947	3,288	9,235
B+	6,361	2,979	9,340	8,620	4,117	12,737	11,150	5,240	16,390	11,753	5,977	17,730
B	9,601	5,359	14,960	11,616	6,557	18,173	14,793	8,151	22,944	15,962	9,221	25,183
B-	13,312	8,511	21,823	15,103	9,624	24,727	18,344	11,771	30,115	18,936	12,174	31,110
C+	17,171	12,402	29,573	19,502	13,864	33,366	22,474	16,742	39,216	22,180	16,291	38,471
C	22,327	17,418	39,745	24,329	19,440	43,769	27,631	22,334	49,965	27,134	21,771	48,905
C-	27,067	22,669	49,736	28,178	24,232	52,410	31,955	26,890	58,845	31,582	27,166	58,748
D+	30,133	25,943	56,076	30,497	26,265	56,762	34,093	29,760	63,853	35,655	31,548	67,203
D+	29,846	29,173	59,019	29,532	27,329	56,861	32,995	31,397	64,392	37,694	35,872	73,566
D-	19,656	22,318	41,974	20,245	20,962	41,207	23,741	23,532	47,273	26,436	25,997	52,433
E	3,037	2,881	5,918	3,227	2,971	6,198	3,684	2,916	6,600	4,263	3,621	7,884
Total	182,175	151,341	333,516	196,208	158,133	354,341	228,497	182,089	410,586	238,819	193,624	432,443
% B+ and above	5.5	3.1	4.4	7.1	4.4	5.9	8.2	4.7	6.7	7.9	5.2	6.7
% C+ and above	27.5	20.4	24.3	30.7	23.4	27.4	32.6	24.9	29.1	31.8	24.6	28.6

Source: Government of Kenya (2013)

an improved percentage compared to the previous five years as shown in the Table 6.16. The small percentages admitted to universities every year indicate the huge wastage that needs to be addressed by expanding access in both public and private universities.

Table 6.16: Admission trends to public universities, 2006/07-2010/11

Academic Year	Number Qualified (C+ and Above)	Joint Board Admissions	Percentage Admitted
2006/07	58,239	10.218	17.5
2007/08	68,040	12,261	18.0
2008/09	62,853	16,134	25.7
2009/10	72,590	20,073	27.1
2010/11	81,000	24,216	33.4

Source: Joint Admissions Board

6.6 Conclusions and Policy Options

6.6.1 Conclusions

(i) Although there has been a substantial increase in participation rates at all levels of education, there are disparities across regions and counties. The participation rates are particularly low across counties in arid and semi-arid lands, and those with high poverty levels. Primary school education recorded the highest participation rate while access rates at ECDE, secondary and tertiary education are still low. Literacy levels are still low in some counties, calling for the need to strengthen adult education programmes in the affected areas.

(ii) Education spending is highly decentralized, but there is an uneven degree in attainment of education outcomes and policy targets. As a result, households are spending substantial resources to help improve service delivery at local levels. Disparities in education outcomes at county level are further aggravated by inefficient utilization of available resources, manifested through teacher absenteeism and limited emphasis on monitoring of actual teaching and learning at school and classroom levels.

(iii) The Integrated Public Financial Management System in the education sector is weak and/or non-existent, especially at sub-national levels, resulting in under-reporting of total education expenditures.

6.6.2 Policy Options

(i) Implement a policy on automatic promotion from pre-primary education to primary education and to secondary education.

(ii) Link all sources of spending to education outcomes. Efforts should be initiated to capture all on-budget and off-budget education spending at programme and facility levels. Clear expenditure roles for counties and the national government should be developed and appropriate resources mobilized. Education spending should also be linked to resource needs (both human and capital) both at sub-national and facility levels. Further, expansion of schools should be linked to demand for schooling or school-age population density and budgetary resource availability, especially teachers' salaries. Access to social amenities such as water, transport, security and housing, among others, would enhance teacher retention in counties with teacher shortages.

(iii) The education sector annual plans and budgets should undergo a two-way bottom-up synchronized process with the districts/county education offices and respective county governments developing the education budget and plans at local level on the basis of a standard funding formulae and per capita unit costs. These county plans and budgets should then be used to prepare the national education budget and the associated implementation framework and plans.

(iv) A user-friendly and efficient financial management system such as the Integrated Financial Management Information System (IFMIS) should be institutionalized in all learning institutions, districts and counties. This should capture both on- and off-budget revenues and expenditures in learning institutions. The system should also be linked with the EMIS, which should be strengthened to capture regular, and up-to-date education indicators at institutional, district, county and national levels.

(v) With the development of county structures, the Ministry of Education should develop a clear and objective instrument for monitoring school and county education performance in relation to national targets. This can take the form of a scorecard. The instrument should capture set education indicators, amount of resources received by source and area of spending and outcomes. The monitoring mechanism should indicate how the reports should be processed and disseminated in order to inform the overall education planning, monitoring and evaluation process at national, county, district and facility levels.

(vi) There is need to strengthen the quality assurance and monitoring systems in the education sector, including capacity building at sub-national level.

(vii) The government should enhance and/or develop the capacity of counties, districts, schools, and managers of education and learning institutions with regard to planning, and monitoring of education performance targets. The government, through either the central government and/or the county governments, should allocate adequate resources at sub-national levels for education planning, monitoring and evaluation activities, which include initiatives such as data collection and analysis.

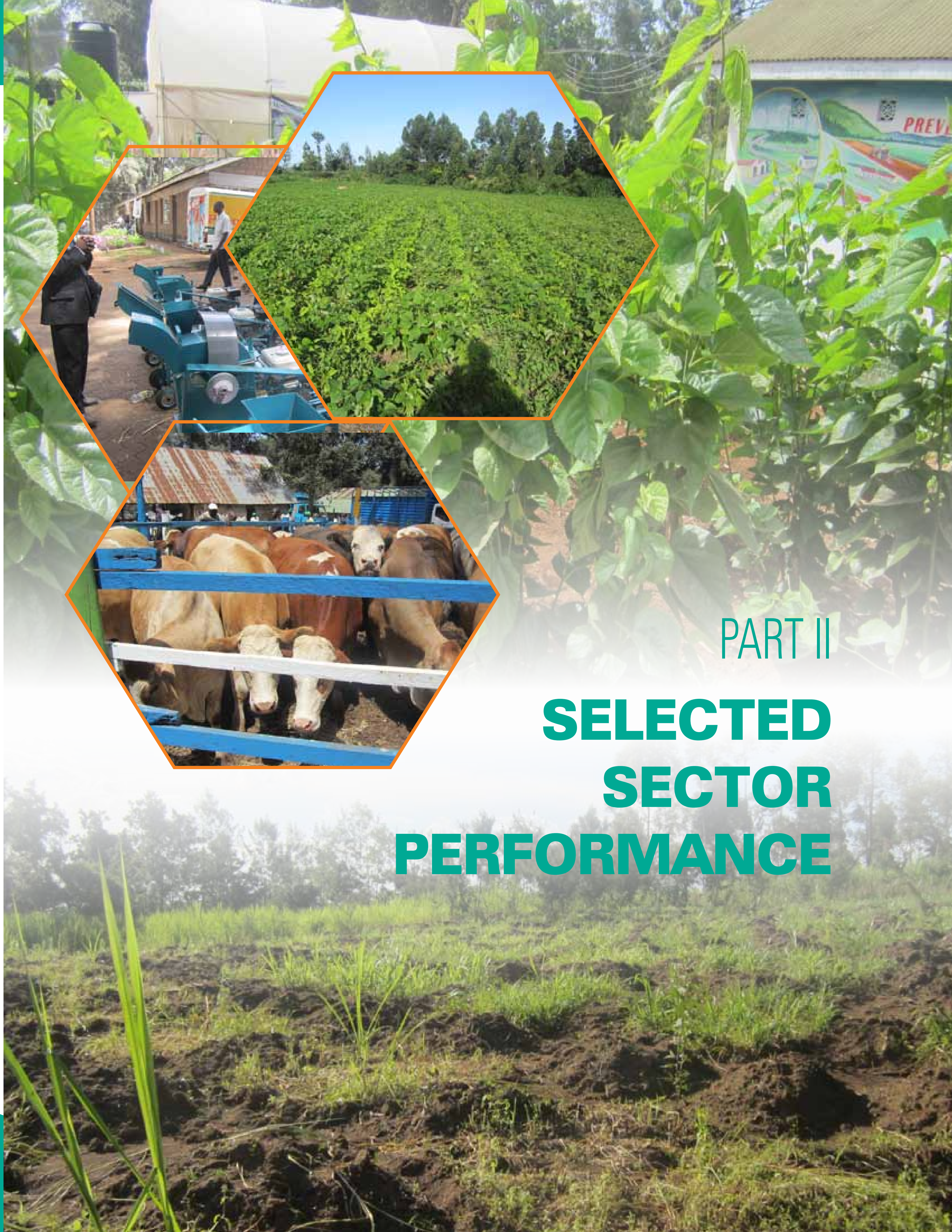
(viii) More tertiary (technical and university) education institutions should be established to cater for the increased demand for tertiary education. In addition, the government should mobilize resources from other stakeholders to assist in equipping tertiary education institutions.

(ix) At least one boarding primary school and a mobile school should be established in each constituency in the ASAL districts to address the infrastructure challenge, and in order to reduce regional and gender disparity and demand for education among migratory pastoralist communities.

(x) In order to expand access and improve Adult and Continuing Education (ACE), there is need to construct additional centres and create conducive learning and teaching environments and provide appropriate furniture in ACE centres to respond to the needs of the youth and adult learners.

(xi) Build and equip a curriculum resource centre, which will include laboratories for science and languages and material development workshops.

(xii) To achieve equitable distribution of teachers, the government should facilitate the implementation of the recommendation of the staffing norms. This will allow for the distribution of teachers across regions based on the recommended Pupil Teacher Ratio (PTR) of 45:1 for high potential areas and 25:1 for low density ASAL regions.



PART II

SELECTED SECTOR PERFORMANCE

Chapter 7

Agriculture

7.1 Introduction

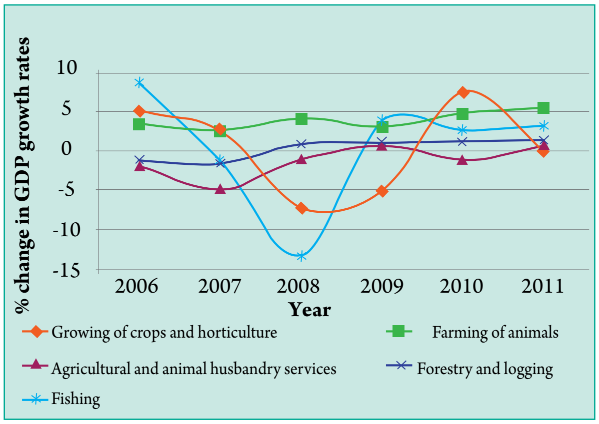
Kenya's economy is dependent on agriculture, which contributes to rural employment, food production, foreign exchange earnings and rural incomes. The agricultural sector directly accounts for about 26 per cent of Kenya's Gross Domestic Product (GDP) and 27 per cent indirectly through linkages with manufacturing, distribution and other service-related sectors. The sector accounts for 65 per cent of Kenya's total exports, 18 per cent and 60 per cent of the formal and total employment, respectively. The agriculture sector has been a key driver of economic growth in Kenya for the last four decades and is the main source of livelihood for almost 80 per cent of Kenya's population living in rural areas. The key policy goals of the sector are in line with Kenya Vision 2030, and are guided by the Agriculture Sector Development Strategy (Government of Kenya, 2003) framework, which emanated from a revision of the Strategy for Revitalizing Agriculture (Government of Kenya, 2003). Overall, the sector is critical in realizing the various targets that are set out in the Millennium Development Goals (MDGs), especially that of reducing hunger and poverty.

7.2 Performance of the Sector

The sector's performance was adversely affected at the beginning of 2012 when severe frost dealt a blow to tea production, and the delay in the onset of the long rains led to suppressed agricultural activities. However, the sector improved substantially to grow at 6.9 per cent in the third quarter of 2012, largely supported by improved and widespread rains during the second and third quarters of the year. In the same period, inflation had risen to 20 per cent from 4 per cent the previous year, and the currency volatility saw the exchange rate depreciate to a record low of 106.75 to the dollar. This directly affected the majority of exported commodities such as tea, coffee and horticulture. Figure 7.1 shows trends in percentage change in GDP growth in agriculture for the period 2006-2011.

In addition, most parts of the country, especially North Eastern Kenya and the Coastal strip, recorded highly depressed rainfall during the June-August 2012 "long-rains". This impacted negatively on agriculture and livestock sectors. Counties in Western and Central Kenya recorded heavy and short-lived rainfall that resulted in flash floods that claimed some human and animal lives. Despite the lethal maize necrosis disease that affected 60,000 hectares of maize nationally, with production losses ranging from 10 per cent to 60 per cent, a bumper maize harvest was realized especially in Trans Nzoia County, which produced 4.6 million bags of maize valued at Ksh 13.8 billion. A taskforce has been appointed to provide a long-term solution to the maize disease.

Figure 7.1: Percentage change in GDP growth in agriculture



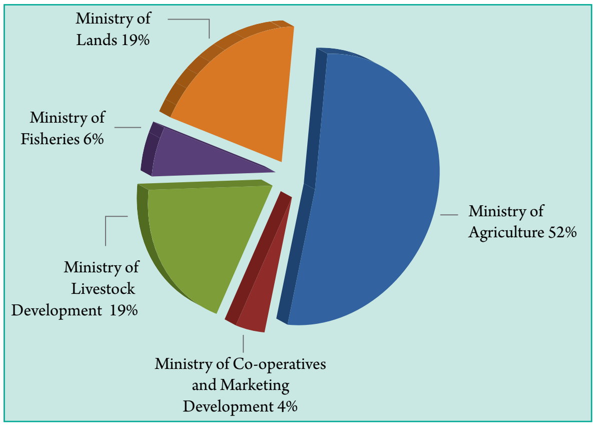
Source: Kenya National Bureau of Statistics (2012), Statistical Abstract

Farming of animals and fishing improved in the same period due to enhanced rainfall, which improved foliage and pasture conditions in the pastoral areas as well as stratification of both ocean and lake waters, such that nutrients from land, a source of food for the fish, would remain on the top layer of the water surface, thus improving fish catches. Therefore, there is need to improve animal production through implementation of sustainable water harvesting and storage facilities. In addition, there is need to enhance animal production and health strategies, projects and programmes founded on sound animal disease risk management principles, and provision of veterinary health through appropriate interventions such as fast-tracking the establishment of disease-free zones.

7.3 Public Expenditure

Figure 7.2 shows the average annual expenditure in the agriculture sector between 2007/08 and 2009/10. The total expenditure in the sector increased in 2010/11 to 27.2 billion from 23.9 billion in the previous year. The amount of budgetary resources allocated to the sector has averaged about 4 per cent per annum of the national budget during the last four years. This, therefore, calls for strategic resource mobilization both from the government and development partners in order to increase the resource allocation towards the Maputo Declaration of 10 per cent to agricultural development so as to increase agricultural productivity by at least 6 per cent, hence reducing poverty, unemployment and food insecurity in the country.

Figure 7.2: Average annual spending on the agriculture sector, 2007/08 – 2009/10



Source: Government of Kenya (2011)

The livestock development sub-sector contributes to about 42 per cent of agricultural GDP and about 10 per cent directly to the overall GDP. It also accounts for about 30 per cent of total agricultural products, which earn the country foreign exchange through the export of live animals, dairy products, hides and skins. There is need to take advantage of the poverty-reducing potential of the livestock sub-sector, which remains largely unexploited in Kenya, by increasing budgetary allocation for the expansion of production.

7.4 Public-Private Partnerships

Public-Private Partnerships (PPPs) hold a great promise for the achievement of agricultural development in developing countries. This has been necessitated by the inability of a single institution by itself to achieve the task of improving farmers' livelihoods and the economy as a whole. It is, therefore, imperative that partners working across different agricultural value chains be mobilized and organized to provide synergy and sustainability of deployed innovations on agricultural production areas. Consequently, there is an increase in institutional alliances that strive to unite a wide variety of public and private sector organizations around shared research and development objectives. There is need for the government to invest in the understanding of what it takes to encourage the creation of PPPs and in unlocking their latent potential for the good of society. This partnership may come through: provision of cold chain infrastructure; ICT in collecting, storing, processing, and disseminating information about risk; development of cottage industries (value addition) and skills development.

7.5 Reduction of Migration of Youth from Rural Areas

The objective of the Strategy for Revitalizing Agriculture (SRA) 2004-2014 was to achieve a progressive reduction in unemployment and poverty through agricultural transformation from subsistence to commercial. Excessive rural-urban migration in Kenya poses a serious problem of rising urban unemployment, under-employment and poor rural economic and social opportunities. Rural areas tend to be less densely populated. Therefore, there are many open spaces. The primary economic activities include farming, lumbering, fishing and quarrying, etc. Most industries are now being concentrated in the urban centres. In addition, the seasonality of the primary jobs (or the agricultural activity they are engaged in) results to seasonal unemployment, and the small-scale business industries are being wiped out by the demand for technological products from urban centres, thus causing structural unemployment. This leaves many people in the rural areas unemployed for the most part of the year, and thus characterized by chronic food insecurity. There is also limited access to basic social services such as safe water, and roads that are accessible all-year round, and electricity and telephone services. Recently, the government through the Ministry of Youth Affairs collaborated with Amiran Kenya to construct greenhouses in every district. This has helped to engage more youths, hence curbing rural-urban migration. Therefore, it is necessary to prioritize the implementation of policies that will ensure the balancing of both social and economic opportunities available to the urban dweller and his/her counterpart in the rural areas, such as providing basic social amenities, improving the quality of education, creation of credit and loan schemes, industrial modernization, technological sophistication and entrepreneurship policies. If these economic and social opportunities are shared equally between rural and urban areas, which will lead to proper balance between the two, it will help curb urban unemployment and under-development, which has caused rural-urban migration problems.

7.6 Promotion/Availability of Domestic (Local) and Inter-County Markets

Kenya's Vision 2030 aims to transform the country into a globally competitive and prosperous country with high quality of life. It is within this framework that county governments should be operating in order to enhance their inter-relationship in terms of trade based on their comparative advantages. There has been a move to have a tripartite collaboration between the government through the Kenya National Bureau of Statistics (KNBS) and the Centre for Training and Integrated Research for ASAL Development (CETRAD) with the Centre for Development and Environment (CDE), University of Berne, to undertake a project that can produce a high resolution National Socio-Economic and Poverty Atlas for Kenya. This is aimed at promoting evidence-based planning at both national and devolved levels. Therefore, it is necessary to prioritize those policies that are geared towards promoting competitiveness at all levels of administration.

Chapter 8

Manufacturing

8.1 Introduction

The manufacturing sector in Kenya constitutes 70 per cent of the industrial sector contribution to GDP, with building, construction, mining and quarrying cumulatively contributing the remaining 30 per cent. Kenya Vision 2030 identifies the manufacturing sector as one of the key drivers for realizing a sustained annual GDP growth of 10 per cent. The manufacturing sector has high, yet untapped potential to contribute to employment and GDP growth. For example, compared to the agriculture sector, which is greatly limited by land size, the manufacturing sector has high potential in employment creation and poverty alleviation since it is less affected by land size (Bigsten et al., 2010). The contribution of the manufacturing sector to GDP has continued to stagnate at about 10 per cent, with contribution to wage employment on a declining trend.

The first Medium Term Plan (MTP) 2008-2012 targets for realizing Vision 2030 remain largely unachieved in terms of contribution of the sector to GDP and implementation of flagship projects. Vision 2030 envisages a robust, diversified and competitive manufacturing sector capable of accelerating employment and economic growth.

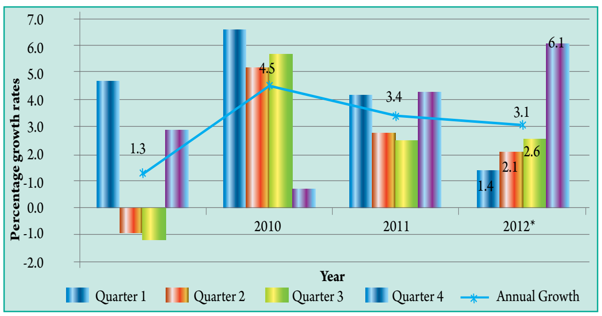
8.2 Recent Performance

The performance of the manufacturing sector is reflected in the trends in contribution to GDP, employment, value added and export trends in light of Vision 2030 targets and selected aspirator and peer economies.

8.2.1 Sector growth and contribution to GDP

The manufacturing sector contribution to GDP worsened from 9.6 per cent in 2011 to 9.2 per cent in 2012, while the growth rate deteriorated from 3.4 per cent in 2011 to 3.1 per cent in 2012. These adverse changes are attributed to high costs of production, stiff competition from imported goods, highs costs of credit, drought incidences during the first quarter of 2012, and uncertainties due to the 2013 general elections (Kenya National Bureau of Statistics, 2013). Influx of counterfeits and volatility in international oil prices continued to affect the performance of the sector. In 2012, the sector's growth continued improving across the three subsequent quarters compared to the first quarter. The food sub-sector recorded a decline of 0.3 per cent during 2012. Sub-sectors that recorded impressive growth performance in 2012 include motor vehicles (16.9%), beverages and tobacco (3.8%), rubber and plastic products (7.0%), paper and paper products (11.9%), electrical equipment (8.6%) and textiles (10.0%) (Kenya National Bureau of Statistics, 2013). Figure 8.1 illustrates comparative quarterly and annual manufacturing sector growth rates during the period 2009-2012. The fluctuations in quarterly growth patterns could be attributed to weather changes and agricultural seasonality, since the sector is heavily reliant on agro-based processing. Successive decline in growth rates during the second and third quarters of 2009 was attributed to prolonged drought, which resulted to decline in the food and beverages sub-sector production.

Figure 8.1: Manufacturing sector growth rates, 2009-2012



Source: Kenya National Bureau of Statistics (2013), Economic Survey; *KNBS Provisional

The stagnation of the manufacturing sector's contribution to GDP at about 10 per cent is attributed to similar growth patterns of the sector and GDP. Figure 8.2 illustrates these patterns during the period 2000-2012.

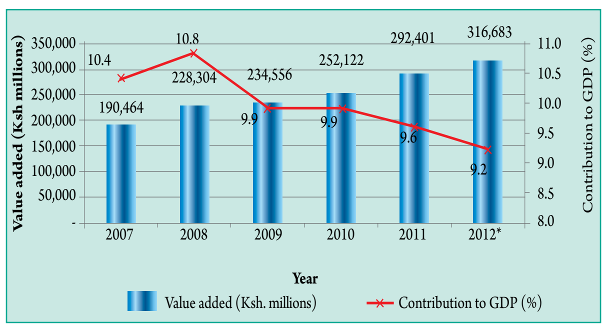
Figure 8.2: Growth patterns of GDP and the manufacturing sector in Kenya

Source: Kenya National Bureau of Statistics (Various), Economic Surveys ; * Provisional KNBS Estimates

8.2.2 Value added and structure of the manufacturing sector

The sector value added increased by 8.3 per cent from Ksh 292.4 billion in 2011 to Ksh 316.7 billion in 2012. Despite this improvement, contribution to GDP declined from 9.6 per cent in 2011 to 9.2 per cent in 2012. Figure 8.3 shows the sector value added vis-à-vis contribution to GDP during the period 2007-2012. Kenya's manufacturing sector is largely agro-processing, and its performance is dependent on weather patterns. As mentioned earlier, incidences of drought during the first quarter of 2012, high costs of production, stiff competition from imported goods, high costs of credit, and political uncertainty due to the 2013 general elections are among the key factors that contributed to the decline in sector contribution to GDP in 2012.

Figure 8.3: Manufacturing sector value added and contribution to GDP

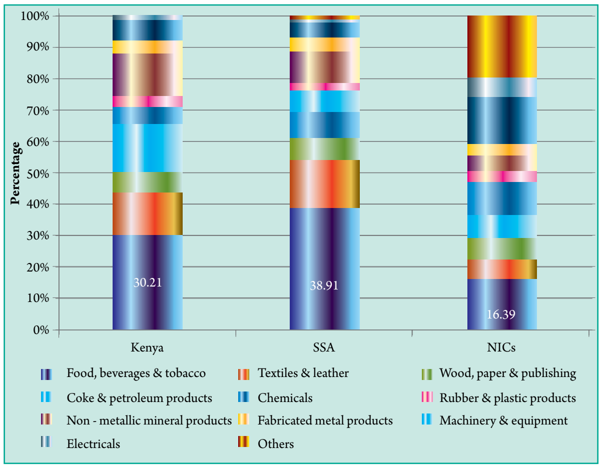


Source: Kenya National Bureau of Statistics (2013), Economic Survey; *Provisional KNBS estimates

8.2.3 Sector diversification

Limited diversification into high-value sub-sectors such as electronics and chemicals has remained a key challenge in terms of manufacturing sector value added. Figure 8.4 shows the structure of Kenya's manufacturing sector in comparison with that of Sub-Saharan Africa (SSA) and Newly-Industrialized Countries (NICs). The 'other' category comprises basic metals, computing machines, medical equipment, and radio and telecommunication equipment. The manufacturing sectors in Kenya and SSA are largely food and tobacco manufacturing (accounting for more than 30% of sector value added) while those in NICs are more diversified into high-value chemical, machinery and electronic equipment. The differences in the manufacturing sector structure are attributed to active policy incentives employed by NICs to encourage diversification into high-value sub-sectors (Page, 2012; Yean and Heng, 2011).

Figure 8.4: Comparative structure of 2009 manufacturing sector value added (% share at 2000 constant prices)

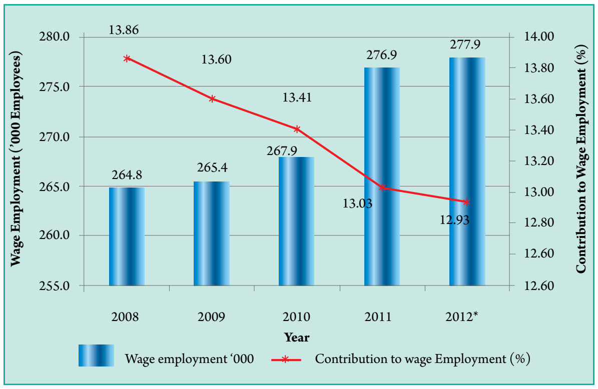


Source: UNIDO (2012)

8.2.4 Contribution to wage employment

The numbers of wage employment in the sector increased from 276,900 employees in 2011 to 277,900 employees in 2012, a 0.4 per cent improvement. This compares unfavourably with 3.4 per cent employment growth between 2010 and 2011. The sector contribution to total wage employment has gradually worsened from 13.9 per cent in 2008 to 12.9 per cent in 2012. While the declining trend largely reflects stagnation of the sector's growth, this could also be due to the possibility of firms becoming more capital intensive, or a shift to use of casual labour to minimize labour costs (KIPPRA, 2012). Figure 8.5 illustrates trends in wage employment and sector contribution to wage employment.

Figure 8.5: Manufacturing wage employment vis-à-vis contribution to wage employment



Source: Kenya National Bureau of Statistics (2013), Economic Survey

8.3 Exports

8.3.1 Global exports

Kenya's share of manufacturing exports to the global market is about 0.02 per cent. While this compares favourably with neighbouring Uganda and Tanzania, the performance is unimpressive compared with South Africa, Singapore, China and Malaysia. For example, South Africa's global share of manufacturing exports is about 0.3 per cent, while that of Singapore and Malaysia are about 2.4 per cent and 1.3 per cent, respectively. Table 8.1 shows comparative global manufacturing export trends between 2007 and 2011. Low value addition and high costs of production impede competitiveness of Kenya's manufactured products in the global market. Further, limited diversification with high concentration in food manufacturing constrains opportunities to exploit the global market. Countries such as Singapore and Malaysia that have shifted from traditional industries to high technology-based manufacturing have higher share of global manufacturing exports, driven by diversification into high value added manufacturing such as chemicals and electronics.

8.3. 2 Exports under AGOA

In 2001, the US government enacted the African Growth and Opportunities Act (AGOA), which

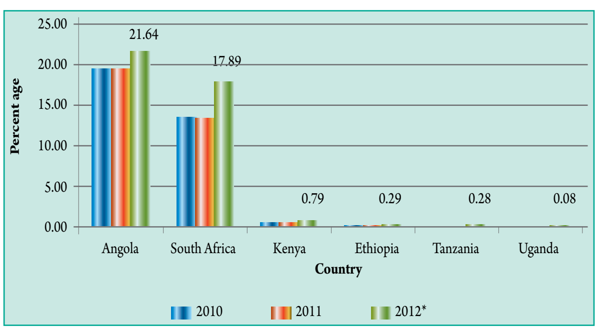
Table 8.1: Comparative world share of manufacturing exports (%)

Country	2007	2008	2009	2010	2011
Kenya	0.016	0.018	0.019	0.017	0.018
Singapore	2.391	2.271	2.370	2.542	2.429
China	11.964	12.766	13.458	14.763	15.393
Malaysia	1.314	1.245	1.309	1.332	1.223
Tanzania	0.005	0.007	0.006	0.008	0.007
Uganda	0.004	0.006	0.006	0.005	0.006
South Africa	0.342	0.365	0.302	0.328	0.321

Source: World Trade Organization (2012)

allowed African countries to export textiles and garments duty-free and without import quota restrictions. The share of Kenya's exports under AGOA improved from 0.51 per cent in 2010 to 0.54 per cent in 2011. During the period January to September 2012, Kenya's share under AGOA was 0.79 per cent. While Kenya is doing well compared to neighbouring countries, including Ethiopia, Tanzania and Uganda – each individually having a share of less than 0.3 per cent – the performance is unfavourable compared to Southern African countries such as Angola and South Africa. Figure 8.6 shows a comparative share of exports under AGOA for selected countries.

Figure 8.6: Exports to AGOA (% of total Sub-Saharan exports under AGOA)



Source: United States International Trade Commission (2012);*January-September 2012

8.3.3 EPZ performance

Table 8.2 shows EPZ performance indicators in terms of gazetted zones, employment, export sales, investments and contribution to GDP. The number of gazetted zones increased from 45 in 2011 to 47 in 2012. The number of firms operating in EPZ improved from 79 in 2011 to 82 in 2012. This yields an average number of 2 firms per gazetted zone. This is unimpressive in terms of potential benefits arising from agglomeration economies.

Most of the firms within EPZ are in the garment sector (26.83%), followed by agro-processing (21.95%). These sub-sectors also have the highest levels of investments, employment, sales and exports as shown in Table 8.3. The minerals/metals sub-sector, though constituting only 4.9 per cent of firms in EPZ, contributes to 20.3 per cent of investments, a reflection that it is a rapidly growing sub-sector due to recent mineral discoveries such as coal, and the expansion of the cement industry driven by the booming construction sector.

8.4 Highlights of Policy Developments and First MTP 2008-2012 Progress

8.4.1 Special Economic Zones

The government is in the process of establishing three Special Economic Zones (SEZs) in Mombasa, Kisumu and Lamu. Land covering 2,000 and 700 square kilometres has already been identified in Mombasa and Lamu, respectively (Government of Kenya, 2013). The SEZ Bill 2012 is expected to repeal the Export Processing Zones Act to provide for the establishment of Special Economic Zones

Table 8.2: EPZ performance indicators, 2007-2011

Year	2008	2009	2010	2011	2012*
No. of gazette zones	38	41	42	45	47
No. of firms	77	83	75	79	82
No. of employees	30,658	30,623	31,502	32,464	35,929
Accumulated investments (Ksh millions)	21,701	21,507	23,563	26,468	38,535
Total output EPZ (Ksh millions)	31,262	26,798	32,348	42,442	44,273
EPZ contribution to total Kenyan exports (%)	8.14	6.94	7.08	7.64	7.72
EPZ contribution to manufacturing sector value of output (%)	4.36	3.63	3.76	4.21	4.25
EPZ contribution to manufacturing sector employment (%)	11.43	11.54	11.75	11.80	12.77
EPZ contribution to GDP (%)	2.29	1.92	2.20	2.76	2.75

Source: Export Processing Zone Authority (2013)

Table 8.3: Structure of EPZ sub-sectors: Share in total EPZ, 2012

Sector	Proportion of firms	Local jobs	Exports	Total sales	Investment
Agro-processing	21.95	10.97	15.87	14.67	16.09
Beverage/spirits	3.66	0.55	0.91	0.82	0.64
Chemicals	1.22	0.21	0.13	0.12	2.93
Dartboard	1.22	0.76	1.50	1.36	1.84
Electricals	3.66	0.05	6.93	6.25	1.23
Food processing	3.66	0.86	1.00	1.52	5.55
Garments	26.83	79.71	53.07	48.94	27.85
Garments support services	6.10	0.07	0.00	0.09	0.20
Minerals/metals/gemstones	4.88	1.17	8.17	7.54	20.32
Pharmaceuticals & medical supplies	2.44	0.75	0.98	1.44	2.73
Plastics	6.10	1.30	1.04	1.27	3.06
Printing	1.22	0.73	1.47	7.45	6.21
Relief supplies	2.44	0.32	2.54	2.51	1.35
Services	12.20	2.54	6.39	6.01	9.98
Other	2.44	0.02	0.01	0.01	0.01
Total	100.00	100.00	100.00	100.00	100.00

Source: Export Processing Zone Authority (2013)

and provide enabling policy environment for investments. The SEZ Bill has gone through the first reading and a Sessional Paper has been prepared for tabling in Parliament.

8.4.2 MTP (2008-2012)

The first MTP 2008-2012, which forms the foundation for the first phase of implementing Vision 2030 development projects, came to an end in 2012. In the medium term, the sector's goal was to increase its contribution to GDP by at least 10 per cent per annum. To achieve this desired growth rate, the following objectives were identified: strengthening production capacity and local content of domestically-manufactured goods; increasing generation and utilization of research and development results; increasing the share of products in the regional market to 15 per cent; and developing niche products for existing and new markets.

The prioritized flagship projects for 2008-2012 included development of at least two Special Economic Zones (SEZs), and the development and creation of at least five SME industrial parks. Table 8.4 shows the sector's first MTP 2008-2012 targets and the status of progress.

Table 8.4: Status of 2008-2012 MTP targets and objectives

MTP 2008-2012 Objective/ Target	Status
Development of at least two SEZs	The SEZ Bill has gone through first reading and a Sessional Paper has been prepared for tabling in Parliament
	Land has been earmarked in Mombasa (2,000 sq. Km) and Lamu (700 sq. Km). Surveying and profiling of Kisumu SEZ is ongoing
Development of five SME parks	135 and 20 acres of land has been identified in Eldoret and Taita Taveta, respectively
	Identification of land in other counties is ongoing
	Development of master plans is in progress
Increase manufacturing sector contribution to GDP by at least 10% per annum	Five-year (2008-2012) average growth rate was 3.16%

The sector's growth during the first MTP was erratic, and contribution to GDP continued to decline marginally. This calls for re-evaluation of policies and strategies to realize the contribution of the sector to the achievement of Vision 2030.

8.4.3 Constitution of Kenya (2010)

The Constitution of Kenya (2010) is a boon for private sector investment as it fosters enhanced governance and property rights that are the foundation of a favourable investment climate. The right to own property, either individually or in association with others, is enshrined in Article 40 of the Constitution (Protection of right to property). Article 40(2) prohibits Parliament from enacting legislation that deprives a person of property or enjoyment of property right. The Constitution has devolved structures that provide incentives for industrial dispersion across the country.

8.4.4 National Industrialization Bill 2012

The draft National Industrialization Bill 2012 provides for establishment of the National Industrial Development Commission to coordinate industrial development activities in the country.

8.4.5 National Industrialization Policy Framework

Sessional Paper No. 9 on the National Industrialization Policy Framework for Kenya was approved during the last quarter of 2012. The policy creates incentives for manufacturing sector value addition, sub-sector linkages and investments. This is a vital ingredient for addressing the key challenges facing the sector.

8.5 Challenges and Lessons from Singapore, Malaysia and South Africa

Despite the shift from the import substitution strategy adopted immediately after Independence to export-oriented manufacturing in the mid-1980s, Kenya's manufacturing sector contribution to GDP has stagnated at about 10 per cent. Low value addition, limited diversification, high energy costs, poor infrastructure, the influx of counterfeits and limited availability of skilled labour are the key challenges facing the sector. Heavy reliance on food manufacturing, which is often affected by unfavourable weather patterns, further constrains the performance of the sector. The Newly-Industrialized Countries (NICs) of East Asia followed similar paths in shifting from import substitution to export-oriented manufacturing, but have managed to transform the sector to be the key driver of their economies.

Experiences from Singapore and Malaysia indicate that developing countries can industrialize and enhance the contribution of the manufacturing sector to GDP. As illustrated in Table 8.5, manufacturing value added as a percentage of GDP for Singapore is more than double that of Kenya, while that of South Africa is more than one and half that of Kenya. In Singapore, the manufacture of machinery and chemicals accounted for 75 per cent of total manufactures in 2008. In Kenya, the manufacture of food and beverages is the single major component of manufacturing, accounting for 28 per cent and 30 per cent in 2000 and 2008, respectively. Data from the KNBS show that as of 2011, the share of food, beverages and tobacco in total manufacturing value added for Kenya had increased to 34 per cent. The 'others' category includes wood, paper, petroleum, basic metals and minerals, and fabricated metal products.

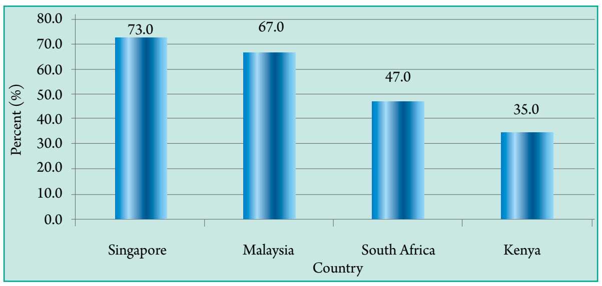
Kenya's manufacturing exports as a percentage of total exports compare unfavourably with those of Singapore, Malaysia and South Africa. The impressive performance of East Asian economies

Table 8.5: Comparative structure of manufacturing

	A		B		C		D		E		F		G
	Value Added (US$ billions)		Food, Tobacco & Beverages (% of total)		Textile & Clothing (% of total)		Machinery (% of total)		Chemicals (% of total)		Others (% of total)		Value Added
(% of GDP)													
Year	2000	2010	2000	2008	2000	2008	2000	2008	2000	2008	2000	2008	2011
Kenya	1.31	3.02	29	30	8	4	2	2	5	4	55	62	9
Singapore	24	43.63	3	3	1	1	52	54	14	21	25	21	19
Malaysia	28.95	62.1	8	9	4	2	38	30	8	12	42	47	25
South Africa	22.93	38.85	15	19	5	3	14	13	7	6	59	58	15

Source: Columns A-F: World Bank (2012); Column G: World Economic Forum (2011) such as Singapore is mainly due to improved diversification and sophistication of manufacturing products (Page, 2012). Figure 8.7 shows comparative manufacturing exports as a share of total merchandise exports for Kenya and selected aspirator countries. Kenya's share of manufacturing in total merchandise exports is only 35 per cent, compared to South Africa (47%), Malaysia (67%), and Singapore (73%). This indicates ample opportunities for Kenya to increase her share of manufacturing exports.

Figure 8.7: Manufacturing exports as a share of merchandise exports (%)



Source: World Bank (2012)

Incentive-based policies aimed at value addition and linkages of large firms with small ones are imperative. For example, Malaysia used a mix of trade and incentive policies to shift from commodity production to value-added manufacturing production. Consequently, the contribution of manufacturing to GDP improved from 11 per cent in 1970 to 27 per cent in 2009, while the share of total employment during the same period increased from 9 per cent to 29 per cent (Yean and Heng, 2011). The import substitution strategy used until the 1980s was replaced with export promotion though a mix of policy incentives aimed at producing high value production, with the potential to compete in international markets. The main incentives used are based on priorities such as level of value added, technology used and industrial linkages.

Experiences from Singapore demonstrate multi-faceted strategies ranging from fixing the investment climate (tax and non-tax), strengthening FDI-SME linkages, research and development funding, and knowledge support. Singapore's successful industrialization is attributed to active policies to enhance the inflow of FDI in skill-intensive activities such as electronics and chemicals, a competitive investment climate supported by strong institutions, infrastructure, and research and development support (United Nations, 2011).

SMEs constitute over 70 per cent of manufacturing firms in Kenya. However, small sizes hinder access to finance, human capital and technology. Malaysia and Singapore, from the early 1970s to 1980s, created a thriving environment that facilitated SMEs to overcome these challenges. Policy reforms in Malaysia, such as the Investment Incentives Act 1968, establishment of the Free Trade Zones in 1970, and the promotion of export incentives laid the foundation for acceleration of FDI in the sector (United Nations, 2011). Widespread informality, weak inter-firm linkages and lack of innovation and export competitiveness are the major challenges impeding Sub-Saharan Africa's industrialization (UNIDO, 2008). To promote industrial upgrading, in the 1990s, the Malaysian government launched the National Action Plan for Industrial Technology Development and establishment of technology-oriented research institutions to prioritize science and technology as a national priority (Yean and Heng, 2011). Consequently, the Small and Medium Industries Development Corporation was established in 1996 to boost development of SMEs in the country. However, lack of monitoring mechanisms and shortage of qualified engineers and scientists, and leaders to drive the new institutions curtailed full benefits of the efforts (Rasiah, 2010). Singapore developed policies and incentives that specifically targeted SMEs through establishment of R&D funding, training, and implementing policies that actively targeted FDI-SME linkages.

Protection of intellectual property is also a key driver of industrial innovation. Kenya compares unfavourably in terms of industrial property and patent registration as shown in Table 8.6. As of

2007, there were 19 industrial property and 3,745 trademark registrations.

Table 8.6: Comparative industrial property and patent registration

	Kenya	Singa-pore	Malay-sia	S. Africa
No. of industrial property (Year: 2007 for Kenya, 2010 for others) registrations	19	4,442	2,177	5,133
Trademark registrations (Year 2010)	3,745	13,694	14,044	65,350

Source: World Trade Organization (2012)

The cost of doing business is a major concern for manufacturing firms in developing countries, and has hitherto continued to dominate policy debates due to its adverse consequences on investments and profitability of firms. Costs of doing business in Africa exceed those of other developing countries by 20-40 per cent (Page, 2012). Thus, fixing the investment climate (regulatory, institutional and physical environment within which firms operate) is central for competitive production. Table 8.7 shows comparative World Bank investment climate rankings for Kenya and selected economies. Kenya scores unfavourably on critical indicators such as property rights registration, investor protection and contract enforcement, compared to Singapore, Malaysia and South Africa.

8.6 Conclusion and Policy Recommendations

The performance of the manufacturing sector in terms of contribution to GDP has remained below the first MTP and Vision 2030 targets. The sector's contribution to GDP during the first MTP 2008 deteriorated from 10.8 per cent in 2008 to 9.2 per cent in 2012. Sector annual growth rate averaged 3.16 per cent during the period, oscillating between 1.3 per cent and 4.5 per cent. The key challenges facing the sector include low value addition, limited diversification, high costs of production and influx of counterfeits. South Africa and East Asian countries with success stories of manufacturing experiences such as Singapore and Malaysia score impressively on the investment climate indicators. In comparison with aspirator countries, Kenya's manufacturing sector performance has continued to lag behind in terms of value addition and contribution to exports. The sector is characterized by a small share in total exports, and a large share of food manufacturing that is frequently adversely affected by erratic weather patterns.

In light of the recent sector performance, constraints highlighted and lessons drawn from aspirator

Table 8.7: Comparative World Bank investment climate indicator rankings

Global Performance (Economies are ranked from 1-185. Rank 1 means business environment is more conducive)						
Economy	Global rank	Registering property	Getting credit	Protecting investors	Enforcing contracts	Starting a business
Kenya	121	161	12	100	149	126
Singapore	1	36	12	2	12	4
Malaysia	12	33	1	4	33	54
South Africa	39	79	1	10	82	53

Source: World Bank (2013)

countries, the following policy recommendations are made:

(i) Because the sector is predominantly agro-processing and characterized by low value addition as evidenced by stagnated contribution to GDP, there is need for policy incentives for value addition and diversification, for example, targeting manufacture of chemicals and electronics. In Malaysia, for example, manufacturing companies engaging in high-technology manufacturing in electronics and biotechnology qualify for 100 per cent tax exemption and investment tax allowance of up to 100 per cent for five years.

(ii) Policy incentives to promote inter-firm linkages (large manufacturing firms and SMEs) and FDIs would enhance progression of SMEs to large-scale competitive firms. For example, Singapore pursued policies to encourage FDI inflows in higher value added areas such as production of chemicals and electronics through tax and non-tax incentives, including concessionary corporate tax rates of between 5 and 15 per cent, grants for high value added sectors, and establishment of the Singapore Science Park to provide targeted research and development services to small and medium enterprises. Such incentives act as a catalyst for industrial transformation.

(iii) Reducing the influx of counterfeit goods and promoting domestic innovations is an important intervention. However, East African countries lack harmonized laws to fight counterfeit goods, and this is a key challenge. Therefore, efforts to establish harmonized anti-counterfeit laws should be expedited, in addition to increasing public awareness on counterfeits, and reporting procedures. Enhanced financial and human resources for the Kenya Anti-Counterfeit Agency should be considered.

(iv) Kenya scores poorly on costs of doing business. There is, therefore, need to mitigate costs of production through reduced energy costs and continued efforts to reduce congestion at the port of Mombasa. The cost of electricity in Kenya is also high and volatile depending on changes in international oil prices. Enhanced investments in alternative energy sources, including geothermal, wind and solar energy is vital in addressing energy costs.

(v) Kenya's share of manufacturing exports in her total merchandise exports is low (only 35%) compared to aspirator countries such as South Africa (47%), Malaysia (67%) and Singapore (73%). The shift from low-value exports, mainly commodities, to high-value manufactures is imperative not only for the performance of the sector but also for reducing the burgeoning current account deficit that is currently in excess of 10 per cent of GDP. Enhanced value addition of manufactured products to compete in international markets and boost exports, coupled with sector diversification is imperative. These can be achieved by addressing costs of production such as electricity through use of alternative energy sources such as wind, and expediting efforts to reduce congestion at the port of Mombasa. Additionally, fiscal incentives should be tied to value addition and inter-firm linkages to facilitate progression of SMEs to large competitive firms.

Chapter 9

Trade and Foreign Policy

9.1 Introduction

Trade is one of the key drivers towards the achievement of Kenya Vision 2030. Trade is defined as the exchange of goods, values or services for money or other goods and services, and plays a significant role in growth and development through linkages with other sectors of the economy by creating markets through which goods and services reach the consumer. Its role in employment, alleviating poverty and achieving desired economic growth is among the most promising paths of industrial development (KIPPRA, 2010). Moreover, trade plays a crucial role towards attainment of national development objectives, particularly those envisaged in Vision 2030, and the Millennium Development Goals (MDGs) one and eight on eradication of Extreme Poverty and Developing Global Partnership for Development through improved market access, respectively.

The exchange of goods and services can generally be understood at two levels: the nation and the world, that is domestic trade, and international trade, respectively. The trade sector in Kenya has five components, namely: wholesale and retail, distribution; trade in services; electronic trade; informal trade; and international trade. Domestic trade is trade that takes place within Kenya and it encompasses mainly wholesale and retail trade. International trade, on the other hand, relates to trade that takes place between Kenya and the rest of the world and includes trade within the regional economic communities (RECs).

A sound foreign policy is crucial in expanding international trade. This is why the Constitution of Kenya (2010), in underscoring the importance of foreign policy in driving international trade, transferred external trade to the Ministry of Foreign Affairs.

9.2 Domestic Trade

In Kenya, wholesale and retail trade form the largest component of domestic trade and provide more opportunities for employment. The wholesale and retail trade has continued to play an important role in the growth and development of the Kenyan economy. Wholesale trade firms are essential to the economy as they buy goods in large quantities, usually from manufacturers, and sell them in smaller quantities to businesses and consumers. They simplify product, payment, and information flows by acting as intermediaries between the manufacturer and the final customer. They also store goods that neither manufacturers nor retailers can store until consumers require them, and in so doing they serve several roles in the economy. As such, they act as the main interface between producers and consumers, and prices of most consumer products are ultimately set in these sectors.

Wholesalers may buy from other tertiary sector businesses, such as importers, instead of primary sector manufacturers. In economics, wholesale trade can be categorized as a form of specialization in the tertiary sector. In some areas, there is continued growth in the distribution stage of the supply chain, but large retail stores are becoming increasingly popular and offer wholesale prices for many goods. The size and scope of firms in the wholesale and retail trade vary considerably across counties in Kenya.

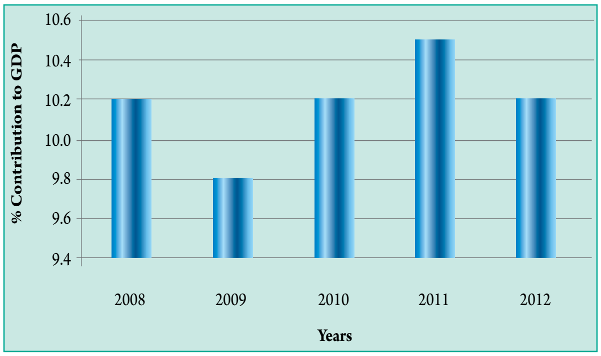
As Kenya embarks on the implementation of the Constitution, especially the devolution to county governments, inter-county trade will be critical in terms of promoting sustainable development, employment and investment. Counties will have to utilize their comparative advantages in order to trade with other counties and to attract investment.

9.3 Performance of Domestic Trade

Domestic trade, comprising wholesale and retail trade, accounted for about a tenth of the GDP in 2012. This sector will, therefore, form a good basis of inter-county trade when devolution is finally implemented.

In the last five years, the wholesale and retail trade has maintained an average of 10.2 per cent contribution to GDP. The contribution to GDP was 10.2 per cent in 2008, went up to 10.5 per cent in 2011 and was back to 10.2 per cent in 2012 (Figure 9.1). The annual growth rate of this sector increased from 4.8 per cent in 2008 to 6.4 per cent in 2012 (Kenya National Bureau of Statistics, 2013). Wholesale and retail trade activities tend to be distributed across the country, and their operations vary across counties. In addition to growth, the sector contributes significantly in terms of formal and informal employment. The sector also has most of the small and medium enterprises, which arguably form the basis of Kenya's growth.

Figure 9.1: Contribution of wholesale and retail trade to GDP



Source: Kenya National Bureau of Statistics (2013)

In terms of employment, the wholesale and retail trade accounted for 196,000 jobs and 4.4 million in the formal and informal sectors in 2007, respectively. Employment in the wholesale and retail trade increased to 238,000 (formal) and 4.5 million (informal) in 2011. Most of the formal employment jobs in the private sector are within supermarkets.

Within the devolved government system, counties will compete for investment by supermarkets, especially by attracting supermarket branches at the county level. Establishment of supermarkets will boost investments, enhance distribution of commodities and, more importantly, create employment at county levels. The key issue then is what kind of incentives the counties could offer in order to attract these types of investments.

9.3.1 Rise of supermarkets in wholesale and retail trade

During the last few years, the role of supermarkets in wholesale, retail and distribution in Kenya has increased. Between 2000 and 2010, the growth of supermarkets was estimated to be 32 per cent in terms of numbers (Kenya National Bureau of Statistics, 2012; Kamau, 2008; Botha and Schalkwyk, 2007). Supermarkets have been spreading very rapidly in major towns but with some base in the capital city. Kenya is therefore among the most advanced countries in Africa in terms of presence of supermarkets, after South Africa. According to the Global Agricultural Information Network - GAIN (2008), Kenya had over 494 supermarkets and 22 hypermarkets in 2008, a number that could have doubled by 2012.

Although many of the supermarkets are located in Nairobi, they have been gradually expanding to other towns. In 2012, the leading supermarkets in Kenya included Nakumatt (44 branches), Uchumi (37 branches), Tuskys (36 branches), Naivas (28 branches) and Ukwala (24 branches). The drivers of the exponential growth of supermarkets include changing consumer lifestyles, increased urbanization, and economic growth experienced over the past decade. Kinsey (1999) explains how households become more heterogeneous, smaller and richer, and more likely to have a female household member in the labour force, which leads to expansion of supermarkets.

Some of the supermarkets have also expanded into neighbouring countries within the East African region. For example, Nakumatt and Uchumi have branches in Uganda, Rwanda and Tanzania in an attempt to broaden their annual turnover. This pattern of first penetrating upper class urban markets and then moving into lower income and rural-town markets shows that there will be a steady and rapid increase in supermarkets in East Africa, and specifically Kenya.

9.3.2 Improving the performance of domestic trade

Micro, small and medium enterprises (MSMEs) are the biggest contributors to wholesale and retail trade, and if the pertinent issues affecting their existence and growth can be addressed, they will be able to transit into the formal sector. The Private Sector Development Strategy (PSDS) report (Government of Kenya, n.d.) cited lack of access to markets and finance as the major constraints facing MSMEs. The other factors were: interference from local authorities, insecurity, lack of physical facilities to put up their premises, and lack of access to clean water. According to the World Bank Doing Business Report 2013, simple business regulatory reforms have had positive outcomes in terms of increasing business and job creation. Based on these findings, the proposed points of intervention to support growth in this sector include:

- Provision of adequate good quality infrastructure for MSMEs.
- Reducing legal, regulatory and administrative barriers to trade.
- Enforcing anti-corruption measures to reduce harassment of MSMEs.

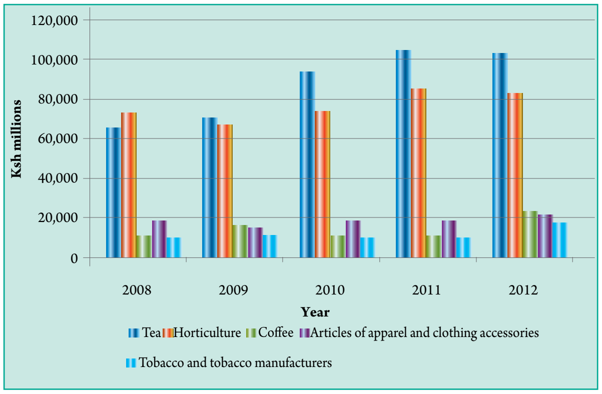
9.4 Kenya and the World Trade

Kenya's total exports grew by only a meagre one per cent (1%) from Ksh 512.6 billion (US$ 6.03 billion) in 2011 to Ksh 517.8 billion (US$ 6.09 billion) in 2012 while total imports grew by 5.7 per cent from Ksh 1,300.7 billion (US$ 15.3 billion) in 2011 to Ksh 1,374.6 billion (US$ 16.2 billion) in 2012 (Kenya National Bureau of Statistics, 2013). This shows that in 2012, the value of imports was 2.7 times the value of exports; this has caused a worsening trade balance and exposed the economy to foreign exchange rate risks. The main reason for this is that Kenya exports mainly agricultural products such as tea, coffee and horticulture and imports high-value products such as machinery and other capital equipment, fuel and lubricants, and non-food industrial supplies (Figures 9.2 and 9.3).

9.4.1 Leading exports and export destinations

Kenyan exports are dominated by agricultural commodity exports, with tea, horticulture and coffee being the leading commodity exports in 2012 (Figure 9.2). Kenya also exports significant amounts of clothing and apparel to the United States through the African Growth and Opportunity Act (AGOA). In the past few years, there has been considerable recovery of tea and coffee exports due to improved governance in the bodies running these industries and improved prices in the international markets. Tea, horticultural and coffee exports have remained resilient to the global financial crisis, but may be adversely affected if the Eurozone sovereign debt crisis persists, and if the United States economy fails to recover quickly. The coffee sub-sector has also received considerable support from the government in the form of writing off debts owed to the government by cooperative societies; setting up of a Coffee Development Fund; allowing direct sales as opposed to auction; training of cooperative societies' staff on good governance; review of the Coffee Act; and reducing the number of licenses that millers, marketers and go-downs have to acquire. The horticultural sub-sector has also seen considerable growth, with leading exports being flowers, fruits and vegetables. Kenya's export base has remained largely the same since Independence, with exports comprising primary commodity exports, thus implying that the country has been unsuccessful in diversifying the export base.

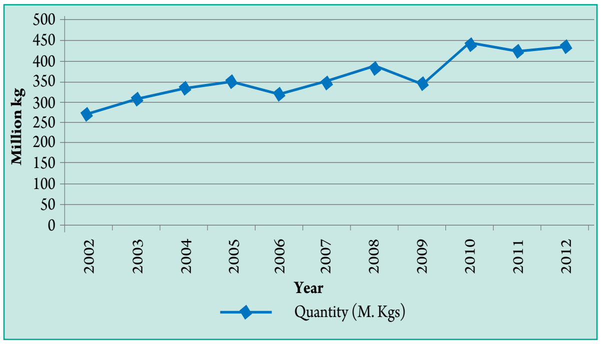
Figure 9.2: Leading Kenyan exports (Ksh million)



Source: Kenya National Bureau of Statistics (2013)

Figure 9.3 shows that there has been a steady increase of tea exports from Kenya, with small variations per year. According to the Tea Board of Kenya 2010/11 Annual Report (Tea Board of Kenya, 2012), the main export destinations for Kenyan tea are Egypt (21%), Pakistan (18%), UK (13%), Russia (10%) and Sudan (8%).

Figure 9.3: Kenya tea exports, 2002-2012 (Quantity in million Kg)



Source: Tea Board of Kenya: http://www.teaboard.or.ke/statistics/exports.html.

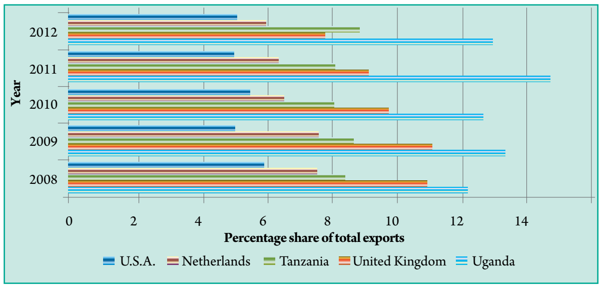
The leading export destinations for Kenyan goods are Uganda, the UK, Tanzania, Netherlands and the US, in that order (Figure 9.4). In 2012, Tanzania overtook the UK as the second leading export destination for Kenya. The fact that Uganda and Tanzania (East African Community members) are the leading export destinations for Kenyan goods highlights the importance of regional integration to Kenya. More exports to the regional market will cushion Kenya when there are disturbances in the world markets such as Europe and the Americas. Kenya exports mainly manufactured goods to Uganda and Tanzania, tea to the UK, horticultural exports to the Netherlands, and clothing and apparel to the United States.

9.4.2 Leading imports and import sources

Even though Kenya exports mainly low-value primary commodity exports, the imports are usually high value. This can explain the persistent current account deficit that Kenya has been experiencing.

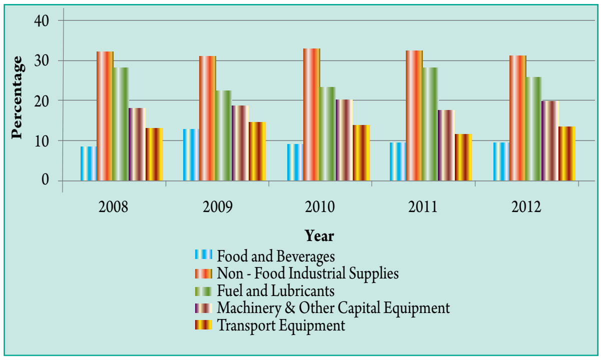
The leading commodity imports by Kenya are non-food industrial supplies, fuel and lubricants, and other capital equipment (Figure 9.5). These commodities represented 30.4 per cent, 24.1 per cent and 18.7 per cent in 2012 of the total value of imports, respectively.

Figure 9.4: Leading Kenyan export destinations (% share of total exports)



Source: Kenya National Bureau of Statistics (2013)

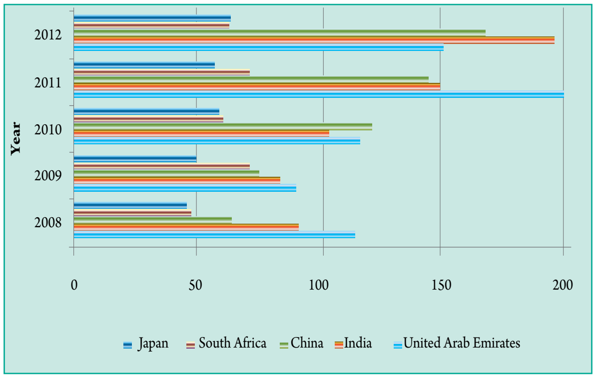
Figure 9.5: Leading Kenyan imports by broad economic category (% share)



Source: Kenya National Bureau of Statistics (2013)

Kenya's imports originate from the United Arab Emirates (UAE), India, China, South Africa and Japan (Figure 9.6). The largest component of imports from the UAE includes petroleum products, household items and electronic products. Kenya also imports chemicals, pharmaceuticals, and clothing and fabrics from China, while petroleum oils and oils from bituminous minerals, chemicals, clothing and fibres are imported from India. Exports to Kenya by South Africa include electronics, pharmaceuticals and machinery, while imports from Japan comprise motor vehicles, machinery and capital equipment.

Figure 9.6: Leading sources of Kenyan imports



Source: Kenya National Bureau of Statistics (2013)

9.4.3 African Growth Opportunity Act (AGOA) exports

There has been a tremendous increase of Kenyan exports to the United States ever since the AGOA came into force in the year 2000. Kenya is one of the first Sub-Saharan African (SSA) countries to qualify for the AGOA 'Wearing Apparel' provision of 18th July 2001. There are only two commodities that Kenya has been able to export to the United States under the AGOA framework, that is textiles and apparels, and agricultural products (Table 9.1). This is despite the fact that Kenya can export a variety of exports under AGOA.

After ranking all the countries exporting to the United States under AGOA, Kenya was in position 9 (Table 9.2). Even a landlocked country such as Chad has been able to export more to the United States than Kenya. This should interest policy makers on why that is the case. One can argue that probably it is cheaper to transport goods in Chad than in Kenya. However, World Bank data shows that the cost of importing/exporting a 20-foot container (US$) is almost three times more for Chad than Kenya. This therefore implies that this situation can be explained by other factors other than differences in transport costs.

Table 9.1: Kenyan exports to the US under AGOA (US$ 1,000)

	Category	2009	2010	2011	2012
1.	Agricultural products	10,707	22,081	30,721	7,916
2.	Forest products	607	577	470	309
3.	Chemicals and related products	51	121	250	175
4.	Energy-related products	0	0	0	0
5.	Textiles and apparels	194,641	200,471	258,964	111,891
6.	Footwear	8	47	49	66
7.	Minerals and metals	150	128	128	22
8.	Machinery	27	0	0	16
9.	Transportation equipment	0	0	21	0
10.	Electronic products	16	102	14	61
11.	Miscellaneous manufactures	1,652	1,965	1,976	1,263

Source: US Department of Commerce (Note: Data for 2012 runs from January-June)

Table 9.2: Sub-Saharan Africa: US imports under AGOA (selected countries)

	Country	2010	2011	2012 YTD*
1	Nigeria	29,977,131	33,834,588	17,685,667
2	Angola	11,778,529	13,756,358	9,143,071
3	South Africa	8,199,239	9,473,432	7,921,283
4	Chad	2,037,630	3,188,885	2,535,959
5	Gabon	2,222,520	4,432,129	1,599,923
6	Equatorial Guinea	2,324,360	1,189,911	1,555,496
7	Congo (ROC)	3,308,922	2,376,790	1,463,771
8	Cote d'ivoire	1,196,499	1,144,783	1,073,223
9	Kenya	311,127	380,463	361,541
10	Cameroon	298,493	322,219	311,068

Source: US International Trade Commission (*Note: YTD denotes year-to-date, January-November)
http://reportweb.usitc.gov/africa/total_gsp_agoa_import_suppliers.jsp.

9.4.4 Regional integration and trade performance

The general objective of all Regional Economic Communities (RECs) has been to enhance economic growth through cooperation in relevant areas of economic activity, such as trade, investment and infrastructure. Regional integration is seen as a rational response to the difficulties faced by countries with small national markets, low investments and low productivity. As such, many countries in Africa today are in one or several RECs with overlapping membership. Kenya is an active member of two regional trade agreements: the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA). The leading Kenyan exports to the COMESA and EAC markets include tea, mostly to Egypt and Sudan, oils and perfumes mainly to Uganda and Tanzania and cement, mostly to Sudan, Uganda and Tanzania. Other exports in terms of volumes include natural sodium carbonate, iron and steel bars, articles of plastics and tobacco manufactures, vegetable oils and fats. In terms of imports, Kenya largely imports agricultural products from the region in the form of unmanufactured tobacco from Zimbabwe, sorghum from Sudan, maize from Malawi, animal feeds mostly from Uganda and paper and paperboards mainly from Tanzania.

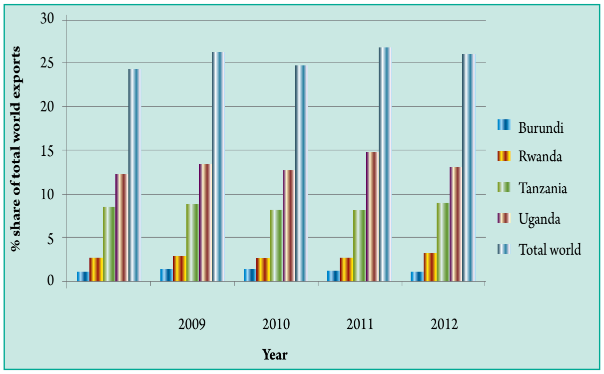
East African Community (EAC)

The EAC seeks to transform itself into an integrated economic and political entity so as to attain sustainable and equitable growth and development, leading to improved standards of living of its people through increased competitiveness, value-added production, investment and trade (East African Community, 2009). The EAC Treaty entered into force in July 2000, signifying renewed interest in the integration of the East African Community, then comprising Kenya, Tanzania and Uganda. Burundi and Rwanda acceded to the EAC in 2007. The EAC Customs Union commenced on 1st January 2005, while the EAC Common Market Protocol was ratified by the partner states in 2010, thereby paving way for free movement of capital and persons. The EAC is now working towards establishing a monetary union in 2013, and a political federation by 2015.

The EAC intra-trade grew from US$ 2.2 billion in 2005 to US$ 4.96 billion in 2011. The region is increasingly getting engaged in global trade, with the value of its total trade with the rest of the world having more than doubled from US$ 17.5 billion in 2005 to US$ 45.8 billion in 2011. Nonetheless, intra-EAC trade accounts for only 11 per cent of the region's trade performance, compared to 45 per cent in the Americas, 60 per cent in the European Union and 45 per cent in Asia (State of EAC Report, 2012).

The EAC countries have continued to be major export destinations for Kenya. For example, Kenya's exports to the EAC in 2012 accounted for 53.8 per cent of the country's total exports to Africa and 26.1 per cent of total exports to the world. In 2012, Uganda continued to be Kenya's leading export destination, absorbing 13.02 per cent of the country's total world exports; Tanzania was second (8.9%) and Rwanda tenth (3.1%). It is, however, important to note the declining share of Kenya's exports to Uganda in 2012 (Figure 9.7).

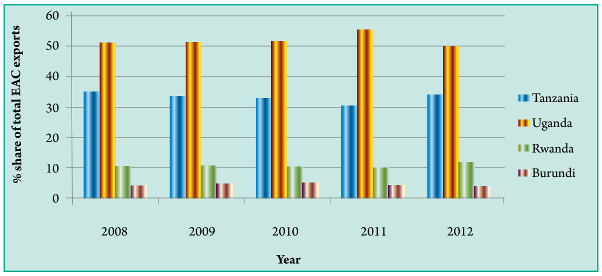
Figure 9.7: Kenyan exports to the EAC



Source: Kenya National Bureau of Statistics (2013)

Within the EAC, the value of Kenya's total exports declined from Ksh 137.2 billion (US$ 1.61 billion) in 2011 to Ksh 134.9 billion (US$ 1.59 billion) in 2012. Of these exports, Uganda took 50 per cent, followed by Tanzania (34%), Rwanda (12%) and Burundi (4%) (Figure 9.8). During the same period, Kenya's imports from the region increased by 14.7 per cent from Ksh 26.9 billion (US$ 316 million) to Ksh 30.9 billion (US$ 363 million) between 2011 and 2012 (Kenya National Bureau of Statistics, 2013).

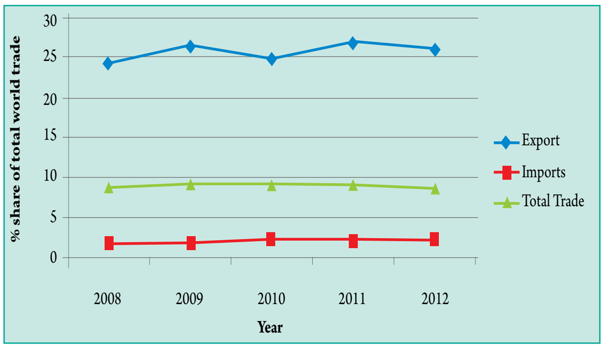
Figure 9.8: Kenya's exports to EAC partner states



Source: Kenya National Bureau of Statistics (2013)

Overall, Kenya's volume of trade in the region has grown tremendously from Ksh 102.7 billion (US$ 1.2 billion) in 2009 to Ksh 164.6 billion (US$ 1.94 billion) in 2012, an increase of 60.3 per cent (Kenya National Bureau of Statistics, 2013). Despite this increase, Kenya's trade with EAC partner states constitutes a small percentage (9%) of her total trade with the rest of the world. This means that 91 per cent of Kenya's trade is outside the EAC region and hence the need for the country to change its export base and take full advantage of the opportunities offered by the integration process to trade more in the EAC (Figure 9.9).

Figure 9.9: Kenya's EAC trade



Source: Kenya National Bureau of Statistics

Kenya continues to dominate regional trade, accounting for about 40 per cent of the total volume of EAC trade, with Uganda and Tanzania accounting for 33 per cent and 14 per cent, respectively (East African Community, 2011). However, Kenya's exports compared with those of other EAC member states have been growing at a slower rate over the past five years, although the volumes remain higher. It was expected that with the implementation of the EAC Customs Union in 2005, Kenya would dominate regional trade by diversifying its exports to the EAC market, given its comparative advantage especially in the manufacturing sector. However, this has not been the case. This can be attributed to the country's lengthy licensing and customs procedures, red tape, corruption and sluggish commercial dispute settlement process, which reduces her competitiveness in the region (East African Community, 2012). It is, however, important to note that although Kenya's manufacturing sector is leading in the region, its growth has stagnated at around 10 per cent since Independence, and hence a reason for slow export growth.

Common Market for Eastern and Southern Africa (COMESA)

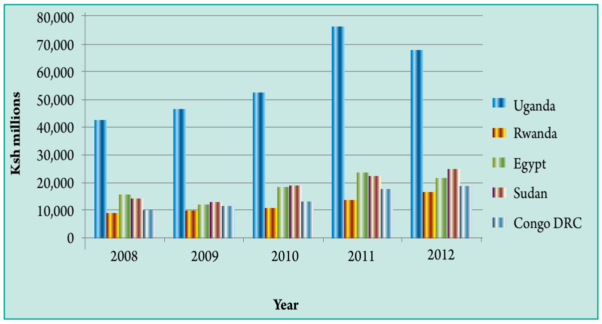
The treaty establishing COMESA was signed on 5th November 1993 in Kampala, Uganda. COMESA comprises 20 member countries including Burundi, Comoros, DRC Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Seychelles, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Swaziland, Uganda, Zambia and Zimbabwe. South Sudan is the latest member to join COMESA in 2011. COMESA has a population of over 406 million and a per capita income of US$ 1,811. The COMESA Free Trade Area (FTA) was launched in 2000, while the Customs Union (CU) was launched in June 2009 in Zimbabwe. COMESA members span a large portion of the African continent covering an area of 12,873,957 km^2, meaning that some countries have difficulties in accessing others' markets due to physical and geographical reasons.

Since the launch of COMESA FTA in 2000, Kenya's trade in the region has increased from Ksh 57 billion (US$ 670 million) to Ksh 236.8 billion (US$ 2.7 billion) by 2012. Through Kenya's steadfast implementation of COMESA programmes, COMESA has since become Kenya's leading export destination, accounting for approximately 73 per cent of total exports to Africa and 33 per cent of total exports to the world (in 2012). Kenya's exports to COMESA, however, decreased slightly from US$ 2.14 billion in 2011 to US$ 2.06 billion in 2012. The main exports to the region include tea and manufactured products.

Uganda is the leading destination for Kenyan exports in the COMESA region, taking 38 per cent followed by Egypt and Sudan with an average 12 per cent share (Figure 9.10). Other destinations for Kenyan products in the region include: the

Democratic Republic of Congo, Zambia, Malawi, Ethiopia and Swaziland (Figure 9.10). Exports to Egypt and Uganda, however, declined in 2012. Of importance to note is that of the 12 per cent exports to Sudan, about two thirds were destined for South Sudan. This is the country the government needs to focus on by improving the infrastructure linking the two countries. The COMESA region continues to be a major source of agricultural imports for Kenya. Kenyan imports from COMESA mostly come from Egypt, Uganda, Swaziland, Zambia and the DRC Congo.

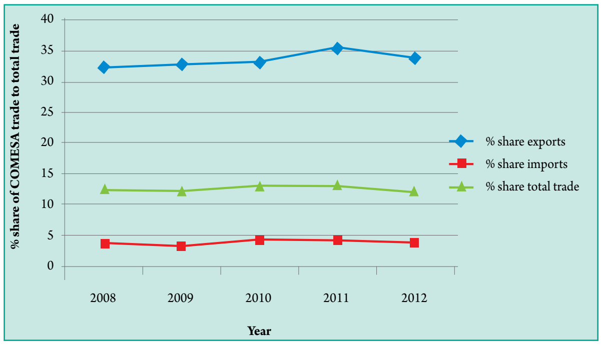
Figure 9.10: Kenyan exports to leading COMESA countries



Source: Kenya National Bureau of Statistics (Year)

Despite the importance of the region to Kenya, the total COMESA trade as a percentage share of total Kenyan trade remains low at an average of 12 per cent (Figure 9.11).

Figure 9.11: Share of COMESA trade to total world trade



Source: Kenya National Bureau of Statistics (2013), Statistical Abstract

9.5 Foreign Policy

9.5.1 Prospects of Kenya's counties as foreign policy actors

The role of sub-national governments in the international arena is not only increasing in political federations but also in quasi-federations and decentralized unitary states. The rise of sub-national diplomacy (also known as constituent diplomacy/paradiplomacy) has been enhanced by the processes of economic decentralization, globalization, regional integration, technological innovation and market liberalization in recent decades. The evolution of the foreign policy process in a number of countries across the globe has contributed to the emergence of a multi-layered foreign policy system. In this kind of system, the national government remains the dominating actor in major foreign policy issues such as national security and defence, ratification of treaties and entering into diplomatic relations with other sovereign states, while sub-national entities strive to raise their profile on the international stage, making them foreign policy actors in 'low' politics areas, including trade, investment, sports and education exchange programmes (Geldenhuys, 1998).

9.5.2 Sub-national diplomacy

This is a form of diplomacy in which a sovereign state's sub-national units establish ties with sub-national actors of other sovereign states. Sub-national units could be counties, districts or provinces in a sovereign state. States within political federations, such as the United States and Nigeria, are also considered as sub-national units or sub-federal governments. An example of sub-national diplomacy of a federal state is the establishment of foreign relations between Canadian provinces with sub-national entities in other countries such as the United States, Japan, Mexico and China. On the other hand, provinces of decentralized unitary states such as China have established relations with sovereign states or sub-national governments in other countries. For instance, economic relations between Chinese provinces and African states have grown remarkably over the last decade (Zhimin et al., 2010). While national constitutions rarely explicitly recognize the engagement of sub-national units in international relations, the participation of sub-state entities in foreign relations is becoming a truly global phenomenon.

9.5.3 Cross-border cooperation

A common form of sub-national diplomacy is cross-border cooperation, in which sub-national entities in neighbouring countries collaborate in areas such as trade, investment, tourism, environmental conservation and cultural exchange. The key drivers of cross-border cooperation of sub-national entities include geographical proximity, common language, culture and history. Some examples of cross-border cooperation include the Maputo Corridor, the Greater Mekong Sub-region (GMS) cooperation and the Central Asia Regional Economic Cooperation (CAREC). The Maputo Corridor comprises South African provinces of Gauteng, Mpumalanga, and Limpopo and Maputo in Mozambique. In the GMS cooperation, Chinese border provinces such as Yunnan and Guangxi have cooperation mechanisms with Cambodia, Laos, Thailand, Myanmar and Vietnam.

9.5.4 Sub-national foreign policy actors

China

China is a unitary state,consisting of 22 provinces, 5 autonomous regions, 4 municipalities and 2 mostly self-governing special administrative regions. Since China began pursuing economic reforms and the 'open door' policy in the late 1970s, its provinces have assumed major roles in fostering local socio-economic development and providing welfare to citizens in their respective provinces (Zhimin et al., 2010). One of the fundamental reforms that China undertook was to grant provincial governments wide-range responsibilities in local affairs, including the management of the local economy, education, science and technology, culture, health, sports, urban and rural construction, public security and judicial administration (Zhimin et al., 2010). China's coastal provinces took a lead in local economic internationalization since decentralization began at China's coast and were the pioneers in establishing an internationally-oriented development strategy.

Today, China's coastal provinces have a local bureaucratic system of external relations consisting of Foreign Affairs Office (FAO) and Foreign Trade and Economic Cooperation Commission (FTEC). FAO offices are responsible for implementing the national foreign policy locally, arranging for the reception of foreign VIPs and for the overseas visits of local leaders, administering passports and visa matters for local official business travels abroad, organizing and promoting activities with sister cities and provinces of other countries, administering consular affairs and foreign media affairs. FTEC offices are primarily responsible for implementing national policies, laws and regulations regarding foreign trade, economic cooperation, foreign direct investment and economic zones.

In recent times, Chinese provinces have gained substantive powers to promote local foreign economic relations, including the promotion of foreign trade and attraction of foreign investment projects locally. Chinese provinces have also become more visible in Africa, especially in trade, investment, infrastructural development and aid provision. China's multi-layered foreign policy is quite at work in Africa, as both central and provincial governments engage with African countries.

Canada

Canada is a federal parliamentary democracy and constitutional monarchy. It has ten provinces and three territories. The provinces have responsibilities for social programmes, including education, health and welfare. Canadian provinces such as Quebec, Alberta, New Brunswick and British Columbia have engaged in international relations with sub-national units in the United States, France, Belgium, Mexico, Japan, South Korea, China and the like. Key areas in which Canadian provinces engage in the international realm include trade, investment, tourism, environmental protection, energy, technological cooperation, governance and education and cultural exchange programmes.

Though the federal government plays a crucial role in economic integration processes such as signing the North American Free Trade Agreement (NAFTA), the consent of Canadian provinces is critical for the implementation of such trade agreements to be effective (de Boer, 2002). Article 105 of NAFTA commits the US and Canadian federal governments to be responsible for actions of their states and provinces. Since the beginning of the Tokyo Round (seventh round of GATT multilateral trade negotiations), the Canadian government has often consulted the provinces on international trade initiatives, if issues under discussion are within the jurisdiction of the provinces. The federal government is also required to secure the consent of the Canadian provinces if the provisions of the treaties significantly affect the provinces.

9.5.5 Lessons for Kenya's counties

Counties are expected to play a critical role in development at the grassroots levels. As a result, there are high expectations that the counties will become engines for economic growth and development. Moreover, many functions of the national government will be implemented at the grassroots through the counties. Therefore, counties are expected to play a critical role in trade, investment, environmental protection, tourism, health, education and cultural exchange. The establishment of strong institutions in the counties will be critical in realizing the objectives of devolution. The counties can begin exploring avenues of attracting both local and foreign investments. One of the means of promoting trade, investments and tourism could be establishment of paradiplomatic relations with sub-national governments in other countries. When the relationships are established, the counties will engage with their counterparts in the region in the world at large in several areas.

Chapter 10

Financial Services

10.1 Introduction

The financial sector includes banking, capital markets, insurance, pension schemes, Savings and Credit Cooperative Societies (SACCOs) and informal financial services such as Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs). The sector plays a critical role in the development process. In Vision 2030, for example, the financial sector is expected to drive high levels of savings and finance Kenya's investment needs. In 2012, the sector's growth slowed down to 6.5 per cent from 7.8 per cent in 2011. Similarly, the sector's contribution to GDP decreased from 6.3 per cent to 5.2 per cent in the same period (Kenya National Bureau of Statistics, 2013).

10.2 Structure of the Sector

As at 2012, the sector comprised 43 commercial banks, 1 mortgage finance company, 5 representative offices of foreign banks, 8 deposit-taking microfinance institutions (DTMs), 112 foreign exchange bureaus and 2 credit reference bureaus. In the same period, there were 45 licensed insurance companies and 3 locally-incorporated reinsurance companies. Other insurance intermediaries and insurance service providers were 154 licensed insurance brokers, 23 medical insurance providers (MIPs) and 4,205 insurance agents. Other insurance players included 126 investigators, 78 motor assessors, 20 loss adjusters, 2 claims settling agents, 10 risk managers and 26 insurance surveyors (Insurance Regulatory Authority - IRA, 2013). The pension industry had 1,262 retirement benefits schemes with over 1.7 million members, 16 registered fund managers, 26 administrators and 12 custodians. While the Nairobi Securities Exchange (NSE) continued to be the only stock market in Kenya, there were 130 Savings and Credit Cooperative Societies (SACCOs) licensed as deposit takers (SACCO Societies Regulatory Authority - SASRA, 2013).

10.3 Policy Changes

The sector continued to witness transformational policy changes in 2012. The Central Bank of Kenya (CBK) Act was amended to enhance transparency in the operations of the Bank. While the governor chaired the Central Bank's Board in the past, an independent person will now be the chair. The governor and his two deputies will also be appointed by the President through a transparent and competitive process and with the approval of Parliament. The deputy governors will not be members of the Bank's Board of Directors. Further, CBK is now compelled to publish in the Kenya Gazette, its website and two national newspapers the weighted average lending and deposit rates for all institutions it regulates. Further, CBK shall now, on a quarterly basis, make and present to Parliament a report on key economic and banking sector aggregates (Government of Kenya, 2012).

To enhance the stability of the financial system, the Kenya Deposit Insurance Act 2012 was enacted. The Act provides for the establishment of the Kenya Deposit Insurance Corporation. The Corporation is expected to provide a deposit insurance scheme for customers of member institutions and to receive, liquidate and wind up any institution in respect of which the Corporation is appointed receiver or liquidator.

As a way of encouraging a savings culture in the economy, CBK banned commercial banks from levying charges (that is, monthly maintenance or ledger fees) on savings accounts. To promote financial inclusion, the laws allowing deposit-taking microfinance institutions to use agents commenced. To improve efficiency in the banking sector, the cheque-clearing cycle was reduced to two from three working days. This development is part of the cheque truncation project started in 2011. Further, to provide checks and balances in the commercial banks' boards, CBK developed new rules requiring that independent directors (one who is not a direct or indirect representative of the principal shareholders, has not worked in the bank as an executive for the past five years, and has not had any business relationships with the institution in the same period) should constitute not less than a third of the total members of the board.

To offer support to banks that have opened regional subsidiaries, the East African Bankers Association consisting of Kenya, Uganda, Tanzania, Rwanda and Burundi was established to lobby for common interest across the region. Further, a multilateral Memorandum of Understanding (MoU) on cooperation in regulation and supervision of the insurance industry in East Africa was signed. The MoU is supposed to maintain and promote a stable, efficient, fair and safe insurance market in the region, amongst other objectives.

As part of streamlining the insurance sector, the Insurance Regulatory Authority (IRA) released three sets of guidelines: Claims Management Guidelines; Market Conduct Guidelines for Insurance Investigators and Motor Assessors and Guidelines on Insurance Products. These guidelines are expected to enhance the quality and credibility of insurance products, thereby increasing the penetration of insurance in the market. To enhance understanding of insurance services and products and consequently change the attitude towards insurance in general, IRA standardized contract documents for motor vehicle insurance.

In the capital markets, companies listed across the East African region will now require just one regulatory approval to raise money through corporate bonds. This will enable the companies to have access to a larger pool of capital in case they need to raise funds. Further, in a radical move to rein in all stockbrokers, the Capital Markets Authority launched a surveillance system that will monitor their transactions in real-time. The new system will track deals brokered by market players, bringing an end to a practice where lack of equal information on particular stocks led to insider trading. It will also send alerts on trading activities to investors and real-time analyses of market data for efficient monitoring. Finally, the law was amended to create a framework for Growth Enterprise Market Segment (GEMS) within the NSE, targeting Small and Medium Enterprises (SMEs). SMEs now have the opportunity to access long-term and relatively cheap capital as well as raising their profiles through participation in the NSE.

10.4 Banking Sector Performance

10.4.1 Assets, deposits and profitability

The banking sector continued to register growth in assets, deposits and profitability (Central Bank of Kenya, 2013). Banks' assets expanded by 15.3 per cent from Ksh 2.02 trillion in 2011 to Ksh 2.33 trillion in 2012. Customer deposits continued to be the main source of the banks' funding. The deposits increased by 14.8 per cent from Ksh 1.49 trillion in 2011 to Ksh 1.71 trillion due to aggressive mobilization of deposits by banks, remittances and receipts from exports. There was an increase by 20.6 per cent of banks' pre-tax profits to Ksh 107.9 billion in 2012 from Ksh 89.5 billion in 2011. Growth in credit portfolio and investment in government securities contributed to increased profits (Central Bank of Kenya, 2013).

10.4.2 Access to banking services

Banks maintained their branch network expansion. In 2012, the number of bank branches increased by 9.6 per cent to 1,272 from 1,161 in 2011. Nairobi County, which had the highest increase in branches, dominates the branch network with 41 per cent of the total branches. Expansion was also witnessed outside Kenya. Total branches of subsidiaries for 11 Kenyan banks within the East African Community (EAC) partner states and South Sudan were 282 in 2012 compared to 223 in 2011. Rwanda registered the highest growth in branches from 27 in 2011 to 52 in 2012 (Central Bank of Kenya, 2013).

Provision of banking services more cost effectively to customers, mainly to those who are currently unbanked or under-banked, received a major boost when remarkable growth was witnessed in the agency banking model. The number of contracted active agents by 10 banks increased by 68 per cent from 9,748 in 2011 to 16,333 agents in 2012. These agents facilitated over 30 million transactions valued at Ksh 152.1 billion. Deposit and withdrawal services were the major transactions offered by the agents. The Bank also granted approval to one DTM to roll out its agency network.

Growth in mobile phone financial services was also registered in 2012. Subscriptions in mobile money transfer increased from 18.9 million in 2011 to 21.1 million in 2012 (Communications Commission of Kenya, 2013). Four more banks signed partnerships with mobile phone providers. This increased the number of banks facilitating money transfer services for their customers from 13 in 2011 to 17 in 2012. A total of Ksh 1,545 billion was transacted in 2012 (Central Bank of Kenya, 2013). The expansion of the partnerships between financial institutions and mobile phone providers will create convenience to their customers and reduce service delivery costs.

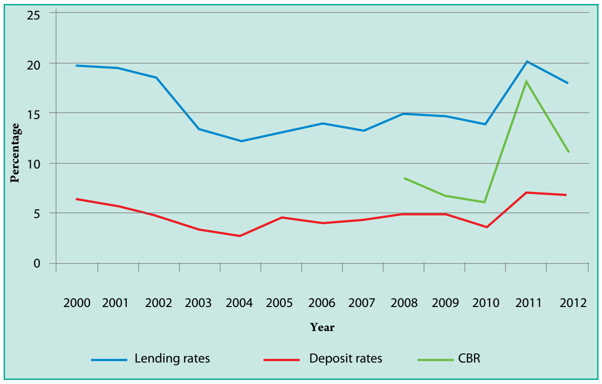
The use of the Internet as a remote delivery channel for banking services by commercial banks was also sustained. As at 2012, 26 compared to 23 banks in 2011 were offering various Internet products to their customers. Also, in enhancing cost-effective channels of service provision, banks increased the number of ATMs by 8 per cent from 2,205 in 2011 to 2,381 in 2012 (Central Bank of Kenya, 2013). The continued embracement of technology by banks complements efforts to expand access to financial services in Kenya.

10.4.3 Cost of credit

The average lending rates decreased marginally from 20 per cent in 2011 to 18.15 per cent in 2012. This is despite the Central Bank Rate (CBR) reducing from 18 per cent in 2011 to 11 per cent in 2012. The average deposit rates, however, remained stable at 6.80 per cent from 6.99 per cent in 2011 (Figure 10.1).

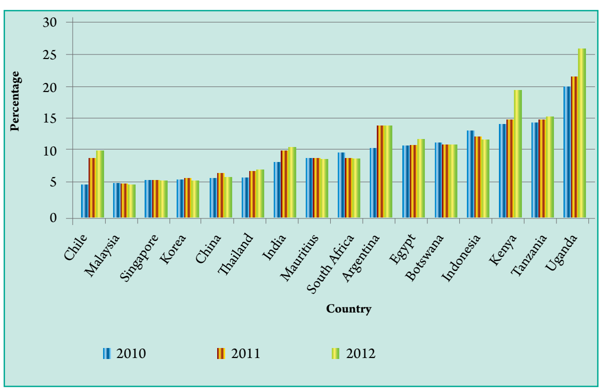
The trend in the interest rates is off the Medium Term Plan target. The Plan envisioned achieving lower lending rates and higher deposit rates, thereby reducing the interest rate spread to 6 per cent, which currently stands at 11 per cent. The large spread is a serious impediment to the expansion and development of financial intermediation because it discourages potential savers with low returns on deposits and potential investors with reduced feasible investment opportunities. Indeed, the lending rates and interest rate spread in Kenya compared to other countries remain high (Figures 10.2 and 10.3)

Figure 10.1: Lending, deposits rates and the Central Bank Rate in Kenya



Source: Central Bank of Kenya (2013)

Figure 10.2: Lending rates (%) for selected countries

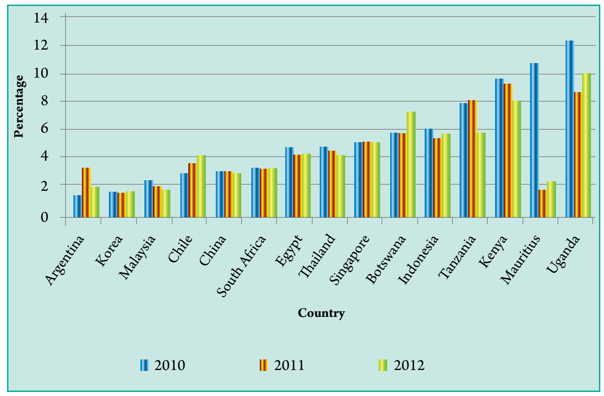


Source: World Bank (2013)

10.4.4 Credit to the private sector

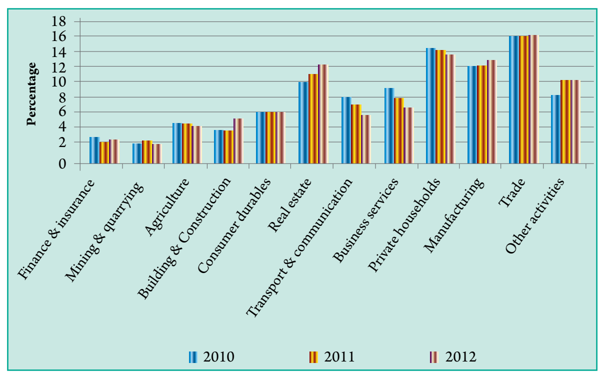
Domestic credit growth slowed down from 30.2 per cent in 2011 to 11.7 per cent in 2012. The total private sector credit was Ksh 1.3 trillion in 2012 compared to Ksh 1.2 trillion in 2011. The growth in credit in 2012 is attributed to increased lending to the various economic sectors, notably building and construction, real estate and manufacturing sectors (Figure 10.4). The banks' capacity to extend credit was as a result of increased deposits.

Figure 10.3: Interest rate spread (%) across selected countries



Source: World Bank (2013)

Figure 10.4: Private sector credit distribution (%)



Source: Central Bank of Kenya (2013)

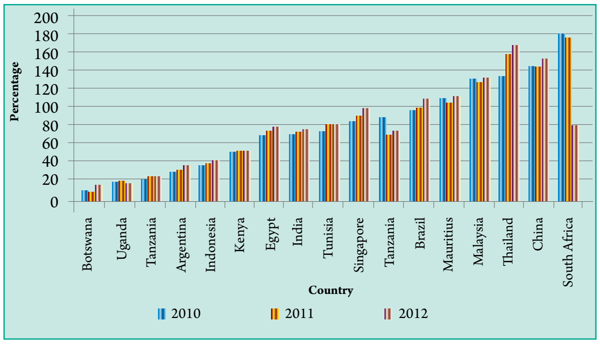
Though Kenya's commercial banks' credit to the private sector has been on the increase, it compares unfavourably with middle-income countries such as Singapore, Malaysia, Thailand and China (Figure 10.5). Kenya's private sector credit averages below 50 per cent of GDP.

10.4.5 Non-performing loans

As a result of high interest rates in the first half of 2012, non-performing loans (NPLs) increased by 16.8 per cent from Ksh 53.0 billion in 2011 to Ksh 61.9 billion in 2012. This led to an increase in the ratio of gross NPLs to gross loans to 4.7 per cent by

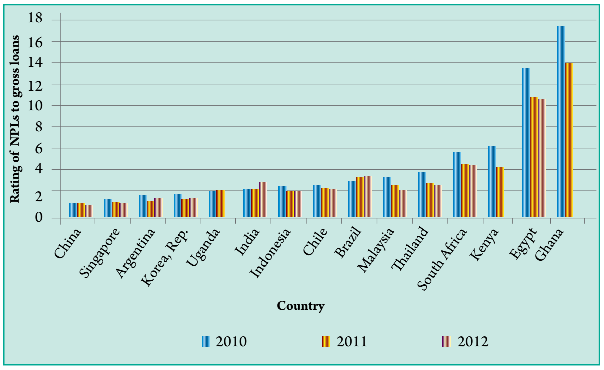
December 2012 from 4.4 per cent in 2011. When compared to other countries, the ratio of NPLs to gross loans in Kenya is on the decline, though high (Figure 10.6).

Figure 10.5: Domestic credit to the private sector (% of GDP) for selected countries



Source: World Bank(2013)

Figure 10.6: Non-performing loans for selected countries



Source: World Bank (2013)

The Credit Information Sharing (CIS) mechanism, which aims to reduce NPLs, recorded significant growth. As at 2012, a total of 2.3 million and 28,733 credit reports had been requested by banks and customers, respectively, from the two licensed Credit Reference Bureaus. While the credit reports requested by banks stabilized at 1,015,327, credit reports requested by customers grew by 305 per cent from 5,607 in 2011 to 22,692 in 2012 (Central Bank of Kenya, 2013).

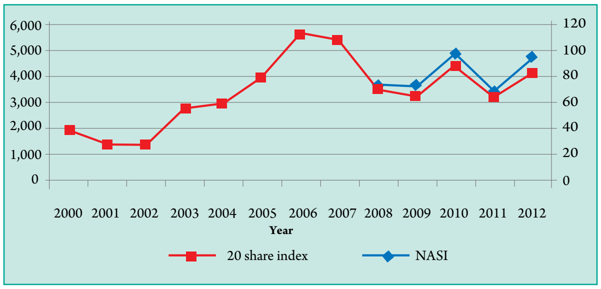
10.5 Capital Market Performance

The stock market performance improved in 2012. Two more companies, that is Longhorn Publishers Ltd and Cooperative Insurance Company were listed at the NSE by way of introduction. Also, Uganda power distributor, Umeme, was cross-listed on the NSE. These developments increased the number of listed companies to 61 in 2012. During the year, suspension of CMC Holdings from the bourse continued, pending the resolution of management-related challenges (Capital Markets Authority, 2013). The narrow spectrum of financial instruments, continued low investors' confidence, and delayed de-mutualization of NSE as a way of conforming to international best practices still remain as challenges in the capital market. The narrow spectrum of financial instruments limits alternatives for firms' external financing.

10.5.1 Stock indices

In 2012, the NSE 20 Share Index increased by 29 per cent to close at 4,133.02 points from 3,205.02 points in 2011 (Figure 10.7). This is an indication that the market recovered after a slump in 2011. Similarly, the Nairobi All Share Index (NASI) increased by 39 per cent to close at 94.86 points from 68 points in 2011. Both the FTSE NSE Kenya 15 Index and FTSE NSE Kenya 25 Index increased by 39 to close at 125.75 points and 128.46 points, respectively.

Figure 10.7: Nairobi Securities Exchange 20 Share Index and NASI

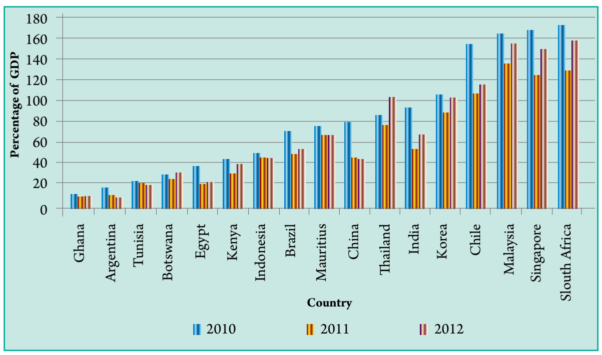


Source: Kenya National Bureau of Statistics (2013)

10.5.2 Stock market capitalization

The market capitalization, which is a measure of stock market development, also recorded an increase of 46.5 per cent from Ksh 868.2 billion in 2011 to Ksh 1,272 billion in 2012. Kenya's market capitalization, however, is still low when compared to other countries (Figure 10.8). Kenya's market capitalization is below 50 per cent of GDP, comparing unfavourably with the Medium Term Plan target of 90 per cent.

Figure 10.8: Stock market capitalization (% of GDP) of selected countries



Source: World Bank (2013)

10.5.3 The Bonds market

In the bonds market, 10 new Treasury bonds were issued in 2012, while in the corporate sector two new bonds were issued. Consolidated Bank issued a bond worth Ksh 1.7 billion out of a target of Ksh 2 billion. Centum Investment Company also issued a Ksh 3.2 billion bond. Total bonds turnover increased by 27 per cent from Ksh 445.8 billion in 2011 to Ksh 566.5 billion in 2012 (Capital Markets Authority, 2013).

10.6 Other Financial Institutions

In 2012, two more Deposit-Taking Microfinance Institutions (DTMs), that is Century DTM Limited and SUMAC DTM Limited, were licensed by the Central Bank of Kenya. This brings the total number of DTMs in the country to 8. This follows the earlier licensing of five nationwide DTMs and 1 community-based DTM. Growth in DTMs was witnessed in 2012, with total assets increasing by 30.6 per cent from Ksh 24.8 billion in 2011 to Ksh 32.4 billion in 2012. Customer deposits also grew by 54 per cent from Ksh 10 billion in 2011 to Ksh 15.4 billion in 2012 (Central Bank of Kenya, 2013). A significant amount of the deposits are, however, a part of customers' loan guarantee funds. These are funds that must be contributed by borrowers as a condition for receiving a loan and may be withdrawn if all outstanding loans have been repaid. This then poses a challenge to DTMs, and hence the need to develop innovative strategies for deposit mobilization. Similarly, as the execution of the Microfinance Act 2008 continues through licensing of DTMs, regulations for governing the conduct of the non-deposit taking microfinance institutions are yet to be put in place.

In the cooperative sector, the ministry responsible developed Sharia Compliant Model by-laws to tap the high savings potential among the Muslim Community through SACCOs. Further, to facilitate remittances in a structured manner, and to raise the current savings mobilization for investment purposes, two SACCOs for Kenyans in the Diaspora were registered. The two are the Kenya USA Diaspora SACCO in Atlanta, United States of America, and the Kenya United Kingdom SACCO in London. Efforts towards improving governance in the SACCO sub-sector continued when licensed deposit-taking SACCOs increased from 122 in 2011 to 130 in 2012 (SACCO Societies Regulatory Authority, 2013). Nonetheless, 85 deposit-taking SACCOs are yet to be licensed.

The performance in the insurance industry also improved, with the industry's gross written premiums increasing by 11.4 per cent to Ksh 108.61 billion compared to Ksh 97.49 billion by the end of the same period in 2011. The industry's assets grew by 24.4 per cent from Ksh 242.87 billion in 2011 to Ksh 302.23 billion in 2012. The total investments for the industry in 2012 increased by 23.8 per cent to Ksh 235.56 billion. This was a growth of 23 per cent during the period under review. However, the industry's claims increased by 8.24 per cent from Ksh 42.82 billion in 2011 to Ksh 46.35 billion in 2012 (Insurance Regulatory Authority, 2013). Insurance penetration, however, is still low at 3.1 per cent.

Growth was also achieved in the pensions industry. Assets grew by 26 per cent from Ksh 432.8 billion in 2011 to Ksh 548.8 billion in 2012. The share of the National Social Security Fund (NSSF) was Ksh 82.1 billion, fund managers held Ksh 436.7 billion, while schemes not under control of the fund managers held Ksh 30 billion of the assets. The NSSF's assets worth Ksh 39.4 billion were transferred to the fund managers in 2012. Investment in government securities makes up the largest share of industry assets with 35 per cent of total assets. Quoted equities are second with 24 per cent. The individual membership to retirement benefits schemes, though relatively new, has achieved remarkable growth over the years, with membership in individual schemes growing by 250 per cent from 25,289 members in June 2010 to 88,509 members in December 2012. The Mbao SME Pension Scheme targeting the informal sector has been the source of growth.

10.7 Emerging Policy Issues and Recommendations

10.7.1 Filling the long-term credit gap

Kenya's financial sector has a wide range of products, institutions and markets but there are glaring gaps in long-term credit. Commercial banks have not managed to supply long-term capital, and the stock market has remained shallow and thin, limiting long-term resource mobilization by firms. Thus, to boost long-term investment growth, deliberate efforts must be made to adequately develop vehicles for mobilizing long-term capital in Kenya. Development Finance Institutions (DFIs), which the government created as a deliberate effort to fill a development-financing gap, are still a viable option. Despite their poor performance, the role of DFIs in the development process is still vital. Therefore, restructuring these institutions is important towards mobilizing long-term capital to finance Vision 2030's targeted investment levels of 30 per cent. The government, therefore, needs to formulate a strategy towards this end.

10.7. Broadening the menu of financial instruments

The capital market offers a limited menu of financial instruments, mainly equities and bonds. In order to enhance long-term resource mobilization for investment, there is need for diversification of financial instruments in the capital market. This will not only provide investors with more risk diversification opportunities, but will also foster competition and innovativeness and allow bigger financial investments. Such new products in the market would include derivative securities that are not currently traded in the capital market.

Chapter 11

Tourism

11.1 Global Tourism Performance in 2012

In 2012, the global international tourist arrivals grew by 4 per cent to reach a new global record of 1.035 billion tourists. The 1 billion mark is a new historical achievement that demonstrates the growth potential for the sector in the coming years. The emerging economies took the lead in terms of the high growth rate at 4.1 per cent as compared to the advanced economies where the growth rate was 3.6 per cent. Asia and the Pacific showed the strongest performance in the year. This growth pattern is anticipated to continue in 2013, with UNWTO forecasting a growth rate of between 3 per cent and 4 per cent (UNWTO, 2013). A regional overview indicates that Asia and the Pacific were the best performers, growing by 7 per cent.

A sub-regional overview indicates that South-East Asia and North Africa both grew by 9 per cent, and Central and Eastern Europe by 8 per cent. Over the long-term (2010-2020), the UNWTO forecasts international tourist arrivals to grow by 3.8 per cent a year on average. The continued growth of the sector in 2012 is a clear manifestation of the resilience of the sector. In spite of the prevailing economic volatility in 2012 around the globe, particularly in the Euro zone, tourism maintained its growth tempo. Tourism is thus one of the pillars that should be supported by governments around the world as part of the solution to stimulating economic growth (UNWTO, 2013).

According to UNWTO, Africa's performance bounced back, growing by 6 per cent, recovering from setbacks in 2011 when arrivals declined by 1 per cent largely due to the negative results of North Africa's political turmoil. Arrivals reached a new record of 52 million due to the rebound. In North Africa, the arrivals grew by 9 per cent as compared to a 9 per cent decline in 2011. The rest of the sub-Saharan destinations grew by 5 per cent (UNWTO, 2012).

11.2 Overview of Kenya's Tourism Sector Performance in 2012

11.2.1 Overall tourist arrivals and receipts

According to the Kenya National Bureau of Statistics (2013) Economic Survey, the total tourist arrivals for 2012 was 1,780,768, which was a decline of 0.3 per cent over the 2011 figure of 1,785,382. Estimated receipts from tourism in 2012 stood at Ksh 96.02 billion, a 1.92 per cent drop from the

Ksh 97.90 billion realized in 2011. This decline is attributed to the pre-election anxieties in the market, rising cost of flying into Kenya, decreasing passenger numbers, high taxes and negative publicity spread in the international media about dismal security along the Kenyan coast.

In the first half of 2012, Italy, Germany, France, Uganda, China, The Netherlands, Switzerland, Spain, Belgium, Denmark, Russia, Austria, the Czech Republic, Hungary and Brazil showed declines in arrivals compared to the same period last year. For the European source markets, this may be attributed to the Eurozone crisis, general and presidential elections in some countries such as France, and late holiday bookings due to the uncertainty of the date of the general elections in Kenya, as well as rising insecurity.

11.2.2 Share of arrivals by point of entry

Arrivals at the Jomo Kenyatta International Airport (JKIA), Nairobi, grew by 1.7 per cent while Moi International Airport (MIA), Mombasa, declined by 20 per cent. The growth in JKIA was attributed to new flights such as Korean Air and Etihad Airways, and Kenya Airways (KQ) beginning direct flights to New Delhi and China. Meanwhile, the decline in arrivals at the MIA is attributed to withdrawal of some chartered flights such as 1Time of South Africa, and growing perception of Mombasa as a mass market compared to competitors such as Seychelles, Zanzibar and Mauritius. The deteriorating infrastructure and congestion in Mombasa is also eroding the destination's image.

A number of airlines that have either withdrawn or reduced the number of flights into Kenya during the year include 1Time (withdrew Johannesburg-Mombasa flights); Czech Airlines, Air Berlin and Qatar Airways (both not scheduled for the high season between August and December 2012); Gulf Air; and Virgin Atlantic. Other issues relate to delay in issuing of traffic rights to airlines. The route between Kenya and Europe is highly competitive and could not sustain the same number of carriers, while demand in Europe is reducing due to the deep economic crisis in the European countries. In addition, the exaggerated terrorist threats locally caused some tourists to change their holiday destinations, and therefore the decrease in passenger numbers.

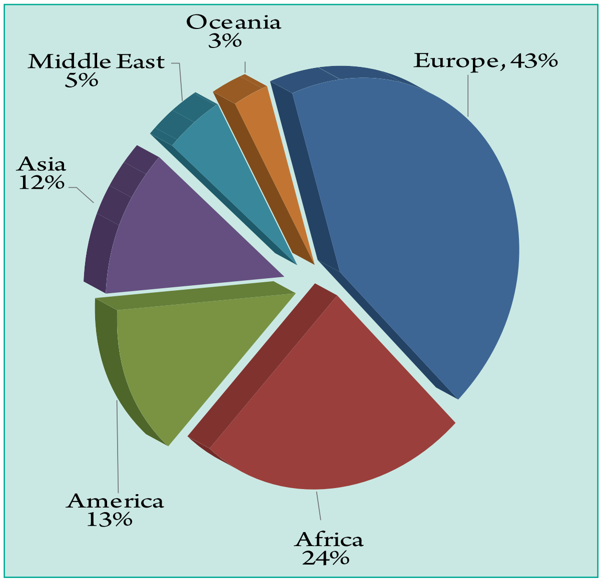
11.2.3 Performance in regional and emerging markets

A general overview of the market performance indicates that Europe remained the main source market for Kenya with a share of 43 per cent, followed by Africa at 24 per cent, the Americas at 13 per cent, Asia at 12 per cent, the Middle East at 5 per cent and Oceania at 3 per cent. However, there was a decline in the number of visitors from major European sources such as the UK, Italy and Germany (Figure 11.1).

A notable decline is the Italian market, which declined by 14.6 per cent, a reflection of the effects of the Eurozone crisis downturn. Similarly, the 2012 London Olympics led to a slowdown of outbound tourism from the UK market, yet this is the leading source market for Kenya's tourism.

There was, however, an increase in the number of visitors from India following the establishment of direct flights to New Delhi by Kenya Airways. In regional and emerging markets, Uganda is Kenya's biggest market, recording a 30 per cent growth while Tanzania and South Africa recorded declines of 3 per cent and 6 per cent, respectively. China and the Middle East grew by 10 per cent and 92 per cent, respectively. Aggressive marketing in China and the Middle East, coupled with improved connectivity by key airlines (Emirates, Etihad and Kenya Airways) led to this tremendous growth. Other markets such as Australia and Japan grew positively by 10 per cent and 11 per cent, respectively.

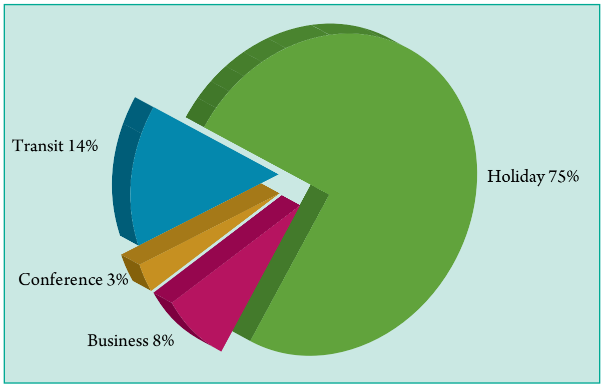
Figure 11.1: Tourist arrivals by region, 2012



Source: Constructed from the Ministry of Tourism (2012)

Holidaying is the major purpose of travelling to Kenya, accounting for 75 per cent of all arrivals. Business arrivals stood at 8 per cent, with conference arrivals taking 3 per cent (Figures 11.2 and 11.3). Several activities engaged in by the industry include the successful hosting of the African Hotel and Investment Forum, intensified marketing and promotion efforts in the region and emerging markets in the Far East where commendable growth was achieved in Korea, Japan (10%), UAE (92%) and China (10%).

Figure 11.2: Share of tourist arrivals by purpose

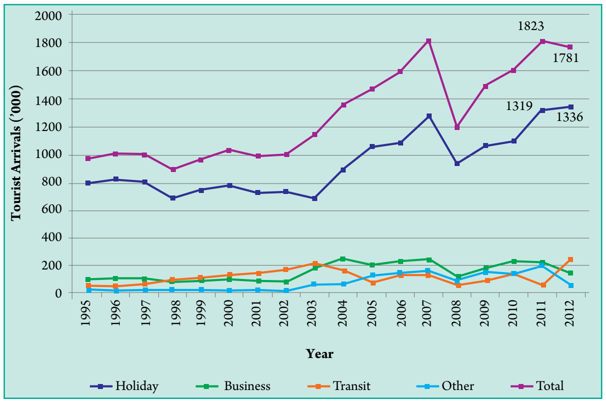


Source: Constructed from the Ministry of Tourism (2012)

The decline in business travel may be attributed to growing or changing technology, where tele-presence conference calls are becoming more popular; decrease in business and incentive travel abroad due to increasing flight costs; and increase in departure taxes (Ministry of Tourism, 2012).

In 2012, Kenya was voted as having Africa's leading Tourist Board during the World Travel Awards (WTA) in the UK. The country was also honoured with the Best African Tourist Board in Africa Award at a Safari awards held in London. Improved security surveillance at the Coast region as well as the fight against terrorism are likely to result in resumption of cruise tourism.

Figure 11.3: Tourist arrivals by purpose, 1995-2012 ('000)



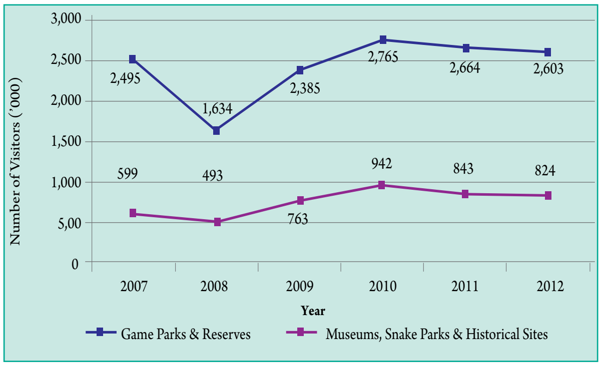
Source: Constructed from Kenya National Bureau of Statistics data (2007-2012), Economic Surveys

As the competition for tourists intensifies at the global level, the government should avail more funds to the Kenya Tourist Board (KTB) to support promotion of Kenya's tourism to emerging markets such as Russia, the Middle East, India and China.

11.3 Visitors to Parks and Museums

Due to the decline in the growth of total arrivals in 2012 by around 2.3 per cent compared to the previous year, the number of visitors to museums, snake parks and historical sites reduced by a similar margin (Figure 11.4).

Figure 11.4: Visitors to game parks and reserves, 2007-2012



Source: Constructed from Kenya National Bureau of Statistics data (2012-2017), Economic Surveys

11.4 Accommodation

The government undertook the last national hotel classification exercise in 2002-2003. However, since 2003, a number of new hotels have come up while some have improved their products and facilities. There is now need to conduct a similar survey urgently, so that the findings can be used to guide stakeholders in the sector. Kenya has over 9,000 town hotel beds, over 13,000 vacation hotel beds and over 5,000 lodge hotel beds (Table 11.1).

Kenya has an estimated hotel bed-night capacity of 17.4 million, operating at 40.3 per cent occupancy level, which is below the optimal level. The Coast region accounts for 50 per cent of all bed-nights (Table 11.2).

Kenya has over 65,000 hotel beds in 1,700 licensed hotels, out of which 140 (or 8.2%) are classified (Table 11.3). This falls below the global standard requirement of at least 100,000 and could limit the

Table 11.1: Hotel star rating comparison, 1991 and 2003

Star Rating	Town Hotels - Beds			Vacation Hotels – Beds			Lodges and Tented Camps – Beds		
	1991	2003	% Change	1991	2003	% Change	1991	2003	% Change
Five	3,111	3,107	-0.1	2,480	869	-65.0	316	774	144.9
Four	197	167	-15.2	3,086	2,188	-29.1	1,316	715	-45.7
Three	1,673	2,483	48.4	6,275	3,673	-41.5	871	2,489	1,85.8
Two	1,785	1,557	-12.8	1,919	6,227	224.5	540	1,282	1,37.4
One	1,484	1,579	6.4	646	448	-30.7	154	0	-100.0
Total	8,250	8,893	7.8	14,406	13,405	-6.9	3,197	5,260	64.5

Source: Kenya Gazette (1991, 2003, 2004)

Table 11.2: Distribution of hotel bed-nights by zone, 2004 to 2011

Zone	2004	2005	2006	2007	2008	2009	2010	2011	2012
Coastal-Beach	1,883.5	2,273.7	3,228.8	3,768.1	1,643.7	3,011.4	3,243.0	3,144.6	3132.6
Coastal-Other	29.4	43.5	108.6	153.5	118.1	152.5	151.1	283.8	260.0
Coastal-Hinter-land	52.9	75.1	83.7	210.5	93.9	210.9	119.6	82.3	88.7
Nairobi-High class	793.7	870.9	946.8	1,028.4	716.2	1,164.1	1,123.6	1,155.7	1145.0
Nairobi-Other	194.5	180.5	257.2	302.7	224.5	498.1	410.7	526.2	490.5
Central	247.8	265.1	300.3	388.9	255.1	347.5	463.5	683.3	526.0
Masailand	272.3	361.9	460.9	519.8	231.8	312.8	472.6	418.6	443.7
Nyanza Basin	167.7	196.7	284.1	246.6	185.4	213.2	301.2	301.9	252.1
Western	100.8	128.0	167.6	234.4	224.6	319.0	364.1	374.9	464.3

Zone	2004	2005	2006	2007	2008	2009	2010	2011	2012
Northern	48.8	81.2	83.7	86.3	5.7	13.3	12.9	43.9	57.8
Total Occupied (‘000)	3,791.4	4,476.6	5,921.7	6,939.2	3,699.0	6,242.8	6,662.3	7,015.2	6860.8
Total Available (‘000)	10,030.7	1,084.5	13,003.5	14,711.6	14,233.6	17,125.3	17,161.8	17,419.6	18849.6
Occupancy Rate (%)	37.8	412.8	45.5	47.2	26.0	36.5	38.8	40.3	36.4

Source: Kenya National Bureau of Statistics, Economic Surveys (2005–2012)

Table 11.3: Comparison of beds in licensed/classified hotels per province in Kenya

Province	No. of licensed hotels	No. of classified hotels	Ratio of classified hotels to licensed hotels (%)	No. of beds in licensed hotels	No. of beds in classified hotels	Ratio of classified hotel beds to licensed hotels beds (%)
Rift Valley	374	24	6.42	11,655	4,214	36.16
Nairobi	378	26	6.88	14,534	6,200	42.66
Western	46	4	8.70	1,037	233	22.47
Central	123	8	6.50	3,548	982	27.68
Nyanza	135	4	2.96	2,852	380	13.32
Eastern	119	4	3.36	3,016	317	10.51
Coast	526	70	13.31	29,236	14,002	47.89
Totals	1,701	140	8.23	65,878	26,328	39.96

Source: Ministry of Tourism (2007); Government of Kenya (2003-2004), Kenya Gazette; Kenya Tourism Development Corporation (2007)

country’s ability to hold major conferences and conventions. The classified hotels supply 39 per cent of the total number of beds in licensed hotels. Nairobi alone has over 378 licensed hotels with over 14,500 beds, of which 6,200 are from classified hotels (Table 11.3).

11.5 Domestic Tourism

Domestic tourism accounts for over one-third (37%) of all bed-nights occupied in the country. Nairobi high-class hotels account for 1.2 million bed-nights annually (or 16.4%), while the Coast beach region accounts for 44.8 per cent (Kenya National Bureau of Statistics, 2012). There is potential for growth in domestic tourism through development of tourism facilities/infrastructure in the counties, and products that are affordable and attractive to low-medium income Kenyans.

With regard to air travel within the country, local carriers are also affected by the same challenges facing international airlines, namely: reduced demand due to the world economic slowdown, high cost of fuel, intense competition and over-capacity. Although majority of the roads within the country have been improved over the last 5-10 years, high fuel/transport costs are some of the key deterrents to growth in domestic travel and tourism. In addition, there is perception among Kenyans that travel and tourism is a reserve for foreigners. There is, therefore, need for domestic marketing/sensitization by the Kenya Tourist Board (KTB) and other relevant government agencies.

11.6 Average Length of Stay

In 2011, Kenya achieved the highest average length of stay (13.4 days) in a decade, which was a 2.3 per cent improvement over the previous year (Kenya National Bureau of Statistics, 2012). The projected average length of stay (ALS) for the 2012 period is 13.0-13.8 days, a growth of around 3 per cent. Although ALS is a key determinant of per capita tourist spending, there is need to develop innovative tourism products that encourage tourists to spend more. Specifically, tourism product development and marketing efforts should target source markets with high per capita income and from which visitors stay longer, such as China.

11.7 Distribution of Tourism Infrastructure in Kenyan Counties

Kenya is endowed with various attractions, including white sandy beaches, rich cultural heritage, spectacular sceneries and diverse wildlife protected in 60 national parks and reserves, which include the world-renowned Maasai Mara and 6 UNESCO World Heritage sites. These include three cultural heritage sites (Fort Jesus in Mombasa, Lamu Old Town and the sacred Miji Kenda Kaya forests); and three natural heritage sites (the Kenya Lake System in the Great Rift Valley, Lake Turkana National Parks, and Mount Kenya National Park/Natural Forest).

The country is rich in cultural diversity, meaning that each county can market its own cultural heritage, for example, through home-stay tourism. However, some counties are more endowed with tourism resources (fauna, flora, infrastructure, heritage sites, etc.) than others. Some counties are also financially weaker than others, hence may require support to develop own infrastructure and tourism products. Generally, most counties lack tourist-class health/hygiene facilities and hotels. There are over 38 gazetted airports/airstrips in the country with four International Airports (JKIA, Mombasa, Kisumu, and Eldoret) to link to county airports/airstrips. Although almost every county has an airstrip, majority require upgrading to asphalt status.

Development of tourism infrastructure in the counties is crucial in enabling full exploitation of potential in their abundant wildlife, spectacular landscapes, cultural heritage and beautiful beaches. Investments are needed to develop and maintain a wide variety of services, including transport, water treatment and distribution facilities, sanitation, communications services, tourist accommodation, game reserves and other protected areas.

The key components of tourism infrastructure, such as roads, airstrips and lodging are well developed in certain parts of the country, including the highlands, sections of the Indian Ocean Coast, and near popular parks and reserves. Most of the roads leading to the parks and accommodation facilities located inside the parks are in good condition. Several popular parks are within a day's drive of Nairobi, including Lake Nakuru, Hell's Gate, Lake Naivasha, the Aberdares, and Mount Kenya National Park (Figure 11.5). Counties within the highlands, where most of Kenya's population resides, have a good network of roads and airstrips serving most major tourist destinations. More distant attractions such as the Maasai Mara National Reserve, Amboseli and Tsavo National Parks, and coastal destinations near Mombasa and Malindi are also quite accessible by air or road (World Resources Institute, 2007). However, there is need to improve the road leading to the Maasai Mara National Reserve, which becomes impassable during rainy seasons.

On the other hand, parks requiring significant travel time by car and with a less-developed tourism infrastructure capture only a small share of Kenya's visitors. This includes Marsabit National Park and Reserve in the northern rangelands, Central Island National Park in Lake Turkana, and Mount Elgon National Park close to Uganda (WRI, 2007; Ikiara and Okech, 2002). Roads and other physical tourism infrastructure serving these parks require substantial investments in order to maximize revenue from tourists and ensure counties in which they are located receive a share of the national tourism cake.

11.7.1 Protected areas and distribution of species with high-viewing value

Tourism in Kenya relies on the country's natural attractions, including wildlife in its native habitat, as well as fine beaches and other coastal ecosystem assets. It ranges from low-density tourism focused on a 'wilderness experience' in less modified ecosystems, to high-density beach tourism requiring a relatively limited set of ecosystem services– primarily sand, sea and sun. Viewing wildlife in its natural habitat is the primary objective for about 80 per cent of the international visitors who come to Kenya for holidays, while 70 per cent of the visitors to Kenya come to see places of natural beauty and engage in nature-based activities (World Resources Institute, 2007).

Kenya has invested in a network of protected areas to safeguard its natural heritage, support nature-based tourism, and achieve biodiversity, watershed protection and other environmental objectives. More than 80 of Kenya's top 120 tourist destinations are national parks and wildlife reserves (about 8% of Kenya's total land area). Beaches and coastal ecosystems account for a large share of tourism earnings, including more than half of all nights spent by tourists in hotel accommodations. Related activities include snorkelling, diving, deep sea fishing, bird watching (there are over 260 bird species in the Arabuko-Sokoke Forest), and wildlife viewing, for example, in the designated six marine reserves of Kisite, Kiunga, Malindi, Mombasa, Mpunguti and Watamu (Figure 11.5).

Giraffe populations are found throughout Kenya's rangeland counties, while rangelands of Laikipia County as well as Amboseli, Marsabit and Tsavo National Parks all have high elephant numbers. The massive annual wildebeest and zebra migration occurs in the plains of Kajiado County close to the Mara-Serengeti ecosystem. Declining wildlife numbers are undermining this, which is one of Kenya's principal tourist attractions (World Resources Institute, 2007).

The Coast region contains numerous ecosystem assets that attract tourists, including sandy beaches, coral reefs and wildlife (turtle nesting sites, dolphins and forests inhabited by rare sable antelope). Tourist accommodation is concentrated around Mombasa, the Diani Beach area and Malindi.

Concentrated along the Southern Coast and in the highland counties are 60 important bird areas, which are prime spots for bird watching and are globally important for bird conservation. Although wildlife is broadly distributed across the counties, particular species with high 'viewing value' exhibit specific patterns of spatial distribution.

Figure 11.5: National parks, reserves and other tourism infrastructure

Note: The sites showing tourist accommodations are a rough approximation based on readily available publications. The paucity of spatially-referenced data may have resulted in omission of sites. Moreover, a single symbol under-represents the greater number of hotels and bed capacity in certain areas such as Nairobi and the coastal region, which together captured about 75 per cent of total hotel occupancy in 2005 (CBS , 2006).

Sources: WRI (2007); cities (SoK and ILRI, 2000), water bodies (FAO, 2000), parks and reserves (IUCN and UNEP/WCMC, 2006), major roads (SoK and ILRI, 1997), campsites, tented camps, hotels, and lodges (approx. placed by ILRI/WRI based on MacMillan Education, 1993; UNEP, 1998; RoK, 2003).

11.8 Review of Implementation of Various Policies

Within the Medium Term Plan 2008-2012, the government has initiated various policy changes including preparation of the Tourism Policy, as well as Wildlife and Heritage policies. The enactment of the Tourism Act 2011 into law is set to change the management and structure of all the institutions under Tourism, while establishing new ones. Most of the existing institutions will have to undergo some branding and restructuring. The Act, which is aligned to the Constitution 2010, provides for the development, management, marketing and regulation of sustainable tourism and tourism-related activities and services. It is a product of several public awareness and participation activities, and the first Tourism Act since Kenya attained Independence .

The proposed institutions include:

- Tourism regulatory, development and marketing bodies: Kenya Tourism Regulatory Authority; and Kenya Tourist Board.
- Research institutions: Kenya Tourism Research Institute.
- Financial bodies: Kenya Tourism Fund, and Kenya Tourism Finance Corporation.
- Dispute settlement: Tourism Tribunal.
- Institutions to enhance security for tourists: Kenya Tourism Protection Service.

Some of these institutions are new and are in the process of being established, namely: Kenya Tourism Regulatory Authority, Kenya Tourism Protection Service, Kenya Tourism Research Institute, and Kenya Tourism Fund and Tourism Tribunal. The already-existing institutions such as KTDC and KTB are undergoing restructuring in order to become more effective in delivering services. In total, the Ministry of East Africa Affairs, Commerce and Tourism will coordinate about 14 tourism-related institutions. This will require more budgetary allocation to enable them to function effectively.

The Kenya Wildlife Bill 2011 is yet to be passed into law and will provide for the protection, conservation, sustainable use and management of wildlife in Kenya. The Bill recognizes that wildlife is an important natural resource and national heritage, a public asset at county, national, regional, and global levels and that there is need for an integrated ecosystem approach to conserving wildlife resources in relation to other forms of land use. It recognizes that wildlife should be utilized in a manner that does not impinge on cultural values, compromise the quality and value of the resource, or degrade the carrying capacity of supporting ecosystems.

Once signed into law, the Bill will pave way for the establishment of three institutions, namely: Directorate of Conservation at the Department responsible for wildlife; Kenya Wildlife Regulatory Authority; and Kenya Wildlife Service (KWS). Although KWS already exists, it will undergo restructuring to enhance service delivery. Its mandate includes:

- Conserving and managing national parks, provisional wildlife conservation areas, national reserves and sanctuaries under its jurisdiction.
- Collaborating with county governments, communities and landowners for purposes of effective conservation and management of wildlife conservancies and sanctuaries.
- Conducting and coordinating all research activities in wildlife conservation and management, and ensuring application of research findings in conservation planning, implementation and decision making.

- Preparing and implementing integrated management plans for national parks, provisional wildlife conservation areas, national reserves, and sanctuaries under its jurisdiction.

The Bill also provides for establishment of an endowment fund and establishment of wildlife conservation areas and committees. The latter will be established at the county level and mandated to:

- Facilitate the development and implementation of ecosystem-based management plans within the region over which they are appointed.
- Inform the Service of projects, programmes, plans, ideas and opinions of the people in the regional wildlife conservation area in all matters relating to the protection, conservation and management of wildlife within such an area.
- Provide a platform for collaboration between the Service, communities, county governments, landowners and other stakeholders within the region over which they are appointed.
- Facilitate communities and landowners to benefit from revenues and other rights derived from use of wildlife resources within the region over which they are appointed.
- Identify land to be set aside for the creation of wildlife conservation areas within the region over which they are appointed.
- Assist counties, communities and land owners to set aside critical wildlife habitats, corridors and dispersal areas for the conservation and management of wildlife within the region over which they are appointed.
- Recommend different forms of wildlife user rights to be licensed within the region over which they are appointed, monitor compliance and perform such other functions as the Service may require or delegate.

Along with the development of a wildlife policy and strategy, interventions at county level should help minimize human-wildlife conflict while enabling communities to exploit and gain from tourism resource endowment at local level.

11.9 Policy Implications and Recommendations

1. The economic downturn in the Eurozone slowed down inbound tourist arrivals to Kenya in 2012, since Europe is one of Kenya's main source markets. To keep up the current performance and to mitigate the effects of the economic crisis in Europe, the Kenya Tourist Board should continue its marketing efforts to emerging markets including China, India, Russia and Australia and New Zealand. With regard to traditional markets of the US, Canada, the UK, Germany, Italy and France, product development and marketing should target high-class holiday and business travellers with potential to stay longer in the country.

2. In concurrence with the Tourism Act 2011 and the Constitution 2010, there is need to devolve tourism institutions to the counties, as a first step in transforming counties into sustainable centres of tourism development. Therefore, a number of county-level tourism institutions may be considered, including: tourism regulation, development and marketing; tourist police unit; and wildlife/conservation coordination office.

3. Develop county tourism infrastructure through public-private partnerships. These include:

    - Accommodation: Develop at least one 4- or 5-star tourist hotel in each county.
    - Upgrade county recreation, campsites and other 'get-away' sites.
    - Road and rail transport: Upgrade roads leading to tourist attractions to tarmac status.

- Health, water and sanitation facilities: Develop at least one modern referral hospital in each county.

- ICT: Link all counties with fibre optic cable and other digital communication systems.

- MICE facilities: Construct at least one modern convention centre in each county.

4. Enhance access to financial services by tourism-related SMEs and MSEs by:

   - Providing tax and other incentives to motivate private sector participation.

   - Generating employment for youths through tourism SMEs.

   - Developing a tourism revenue-sharing formula between the counties and the national government.

5. Distribute Vision 2030 tourism flagship projects spatially, and specifically: resort cities, ICT cities, conference/convention centres and premium parks.

6. Policy issues: Fast-track the enactment of the Kenya Wildlife Bill 2011 so as to promote protection, conservation and sustainable use and management of wildlife in the counties.

7. National hotels classification: The government undertook the last national hotel classification exercise in the 2002-2003 period. However, after 2003, some new hotels have come up while some have improved their products and facilities. There is need to conduct a similar survey urgently, so that the findings can be used to guide stakeholders in the sector.

8. The Kenya Airports Authority should develop at least one asphalt-status airstrip in all the counties. This will open up inaccessible tourist destinations all across the country.

9. County tourism branding: County governments, working with Brand Kenya, KTB, etc. should develop their regional brands.

Chapter 12

Micro and Small Enterprises

12.1 Introduction

The Micro and Small Enterprise (MSE) sector is an important sector especially as a source of goods and services and employment. In 1999, when the last comprehensive survey was conducted, the sector was estimated to employ over 50 per cent of the working population (accounting for 2.3 million people). As much as majority of the MSEs in Kenya operate informally, there are over 35,000 formal MSEs that employ over 40 per cent of the working population. Data on formal (modern) establishments as obtained from the Kenya National Bureau of Statistics (KNBS) Statistical Abstracts does not include data on small non-agricultural rural establishments and smallholdings that are outside 'Scheduled Areas'. It is, therefore, important to note, at the onset, that the statistics available may not provide a clear picture of the performance of the sector.

The MSE definition applied in this Chapter is enterprises, whether formal or informal, which employ 1-50 people.

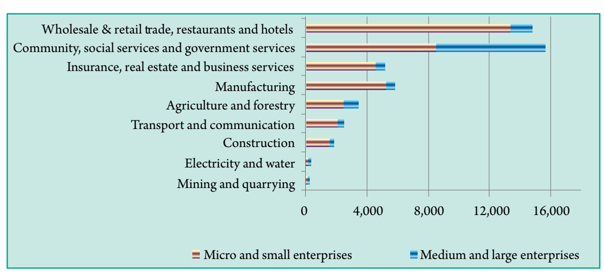
12.2 Recent Performance

This Chapter reviews the performance of the MSE sector with respect to employment, number of establishments, value added (of the manufacturing sector) and the contribution made by the sector to the exchequer.

12.2.1 Number of establishments

As illustrated in Figure 12.1, majority of enterprises in Kenya have under 50 employees, especially in trade. The figure also indicates that majority of formal MSEs in Kenya operate in the service sector, including trade, construction, finance, real estate and insurance.

Figure 12.1: Micro and small enterprise establishments, 2011

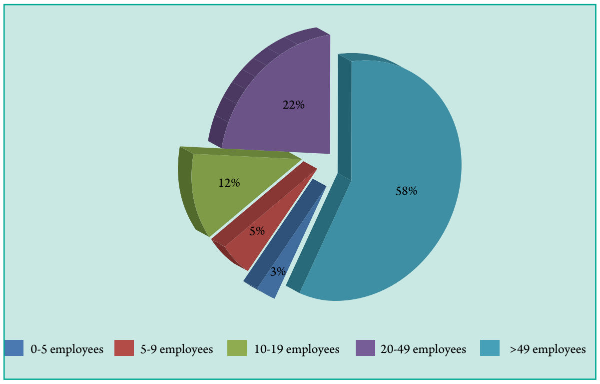


Source: Kenya National Bureau of Statistics (2012), Statistical Abstract

12.2.2 Employment

As much as majority of the formal enterprises in Kenya are MSEs, large enterprises employ larger numbers of people, as is expected due to their size. This is illustrated in Figure 12.2.

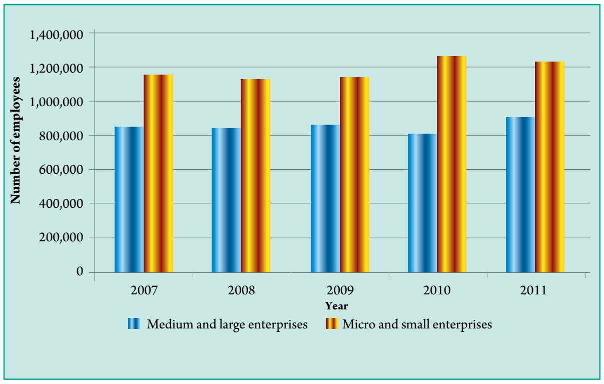
Figure 12.2: MSEs employment figures



Source: Kenya National Bureau of Statistics (2012), Statistical Abstract

The number of employees in the MSE sector increased between 2010 and 2011, while that of medium and large enterprises declined during the same period as illustrated below.

Figure 12.3: MSEs employment trends

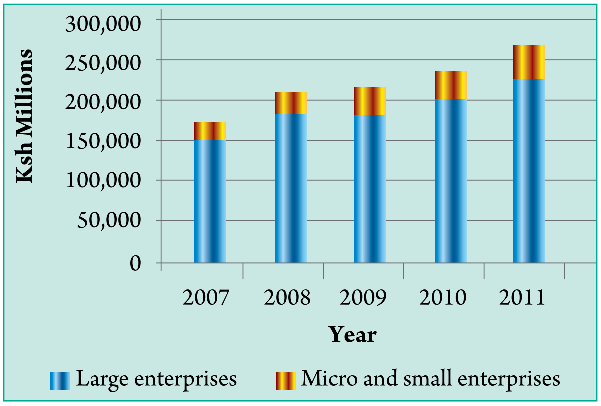


Source: Kenya National Bureau of Statistics (2012), Statistical Abstract

12.2.3 MSE manufacturing value added

The manufacturing value added contribution made by MSEs also increased from 13.6 per cent in 2010 to 14.25 per cent in 2011. However, the overall contribution made by the sector is still low, especially when compared to the contribution made with respect to the number of establishments, as 67 per cent of manufacturing firms are MSEs.

Figure 12.4: MSEs manufacturing value added

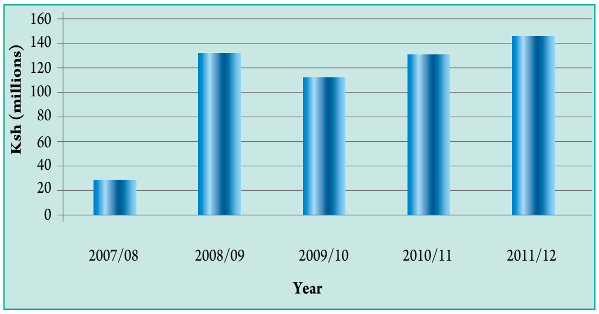


Source: Kenya National Bureau of Statistics (2012), Statistical Abstract

12.2.4 Tax performance

By Kenya's tax regime, the tax obligations for small enterprises are the same with those of large enterprises with the expectation of Turnover Tax (TOT), which applies to enterprises with a lower turnover of between Ksh 500,000 and Ksh 5 million. TOT was introduced in 2009 and has been experiencing steady growth. TOT is set at 3 per cent of turnover; however, loss making businesses are exempt from the tax.

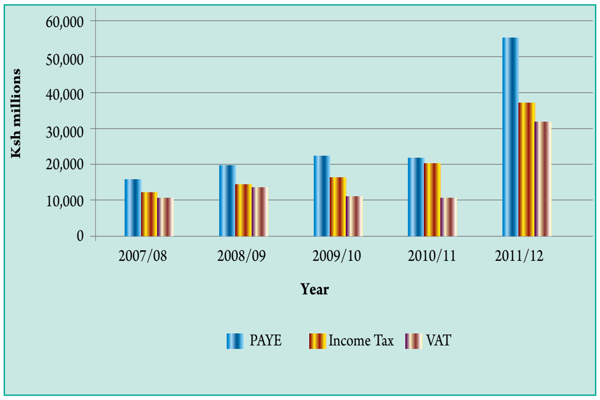
Figure 12.5: Turnover Tax (TOT)



Source: Author's construct using data from Kenya Revenue Authority (KRA), Domestic Tax Department

Review of the other tax regimes reveals that Pay As You Earn (PAYE) and income tax payments have been increasing over the years, while those of Value Added Tax (VAT) declined over the years between 2008/09 and 2010/11, which is attributable to the introduction of TOT.

*Figure 12.6: Tax performance for small and medium enterprises**



Source: Author's construct using data from Kenya Revenue Authority (KRA), Domestic Tax Department
* Taxpayers whose turnover is between Ksh 5 million and Ksh 750 million.

12.2.5 Business registration and licensing

Business registration

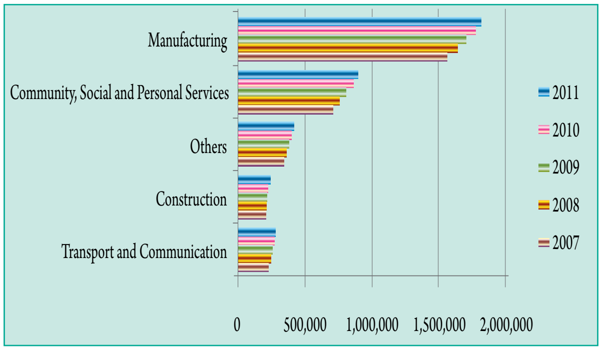
As indicated earlier, MSEs in Kenya operate largely informally. This is evidenced by two studies: The 1999 MSE National Baseline Survey and the 2008 KIPPRA Study on MSEs in Kenya. According to the 1999 MSE Survey, 88.6 per cent of MSEs operate informally. The 2008 KIPPRA Study established that 72 per cent of the over 2,500 firms sampled were not registered; of those that were registered, only 8 per cent of sampled firms were formally registered as limited companies with the Registrar of Companies. The study also established that the low level of business registration is due to the many registration requirements, the long period it takes, and the long distance to be covered to register. It is also important to note that a number of MSEs confused licensing for registration, thus revealing that they considered licensing as sufficient requirement for operating the business.

A review of available statistics reveals that the number of persons operating informally has been increasing over the years as illustrated in Figures 12.7 and 12.8.

Licensing

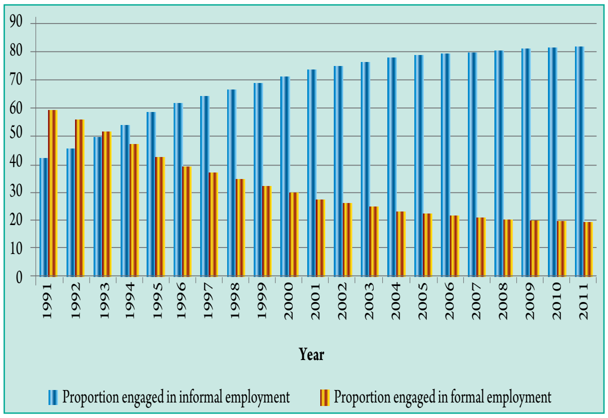
The licensing requirements for businesses operating in Kenya include a Single Business Permit (SBP), which is obtained from the county offices, and other sector-specific licences obtained from the relevant ministry and/or licensing authority, including and not limited to: Ministry of Agriculture; Ministry of Health, Ministry of Education, National Environment Management Authority (NEMA), Communications Commission of Kenya (CCK), Pharmacy and Poisons Board, Horticultural Crops Development Authority, National Cereals and Produce Board (NCPB) and Pest Control Products Board (PCPB), among others.

Figure 12.7: Informal sector employment by activity, 2007-2011



Source: Kenya National Bureau of Statistics (2011), Economic Surveys

Figure 12.8: Employment in the informal and formal sectors in Kenya



Source: Kenya National Bureau of Statistics (Various), Economic Survey

In 1999, majority (60.7%) of MSEs were operating without a licence. In 2008, the majority (85%) were those that had a SBP. This improved compliance in licensing is attributable to the reforms that were introduced, which saw the introduction of the SBP in the late 1990s, but legally recognized following the repeal of the Trade Licensing Act where the trade licence was eliminated. SBP, however, did not harmonize all licences as professional and sector-specific licences are still obtained from the relevant authorities.

Recently, there have been efforts towards improving licensing, key amongst them being the introduction of an e-registry to electronically host licenses in Kenya. The main challenge experienced in Kenya with respect to licensing is the multiplicity of licences issued by different regulatory agencies and ministries separately located. This electronic portal should, therefore, lower transaction costs associated with obtaining licences. As at the end of 2012, the Business Regulatory Reforms Unit (BRRU) e-licence portal had details as shown in Table 12.1.

Table 12.1: E-licensing (as at December 2012)

Description	Number
Licences in the system	556
Published licences	441
Licences prepared	36
Licences created	79
Licences accessible to the public	441

Source: Business Regulatory Reforms Unit (BRRU), Ministry of Finance

There is, however, limited awareness on the existence of the e-registry service. Over 30 per cent of businesses surveyed in an ICT survey undertaken by the Kenya ICT Board in 2011 indicated that they were not aware of the service, and majority of those that were aware of it had not used the service.

Licensing under the devolved governance structure

Kenya is gearing up for additional licensing changes under the Constitution of Kenya (2010), which splits licensing roles between the national and county governments.

Activities relating to transport and communication, and protection of the environment and natural resources, for instance, are under the national government, while county governments are mandated with licensing of county health services, cultural activities, county transport and trade licensing.

The Local Government Act (Cap 265), which provides for SBP, was repealed and local authority staff redeployed under the Urban Areas and Cities Act. This latter Act provides that licences and permits issued by local authorities be granted by cities and municipalities as authorized by county governments.

The County Government Public Finance Management Transition Act No. 8 of 2013 provides that county governments continue imposing rates and charges previously applied until a new relevant law is enacted. The Nairobi County Assembly has, for instance, enacted the "Nairobi City County Finance Act 2013", which provides for the various taxes, fees and charges for different businesses, small trade services, public services, community development services, sports and cultural activities, market charges, among others. This licensing transition effort should be made to ensure efficiency and subsequently compliance among MSEs, which form majority of enterprises in Kenya.

12.3 Regulatory Environment

The Micro and Small Enterprise (MSE) Act No. 55 of 2012 was passed by Parliament in late 2012. This will be the first comprehensive legislation that exclusively addresses the promotion, development and regulation of the MSE sector.

The objectives of the MSE Act include: provision of an enabling business environment; facilitation of business development services; formalization and upgrading of informal micro and small enterprises; promoting an entrepreneurial culture; and promoting representative associations.

With the enactment of the MSE Act, therefore, a registrar of Micro and Small Enterprises will be established to register MSE associations or umbrella organizations. Currently, the MSE sector has numerous MSE associations, which are often not well organized and, therefore, do not effectively lobby the government and/or meet the needs of their members. The requirement for MSE associations to be registered also assists with respect to governance and, consequently, accountability.

The MSE Act also establishes the MSE Authority, whose main function is to coordinate, harmonize and facilitate activities and plans that relate to the sector. Some of the challenges affecting the sector include poor coordination and implementation of policies. Additionally, different government ministries and agencies perform different roles targeted at the same sector. This leads to duplication of activities, overlaps and wastage of resources, and contributes to confusion amongst MSEs that may not know which agency/ministry to approach. The MSE Authority will, therefore, monitor and evaluate the implementation of relevant policies and collaborate with relevant institutions, and therefore improve coordination. The Authority will also be mandated to facilitate the promotion of MSEs, including development of infrastructure and markets; promoting the use of technology; and facilitating capacity building and access to finance.

Another important undertaking of the MSE Act is the introduction of a tribunal to settle disputes effectively, and the establishment of the Micro and Small Enterprise Development Fund to finance the promotion and development of MSEs, while also providing affordable and accessible credit, which has also been an outstanding challenge for MSEs.

12.4 Outstanding Challenges

Multiplicity of licensing is still a challenge that is yet to be addressed. The challenge is to ensure that the regulations that deal with businesses at the county level do not end up introducing additional licensing bureaucracies. Enterprises operating informally experience challenges that hinder their growth, as they have limited access to financial services, infrastructure, inter-firm linkages and the market.

Lack of relevant statistics is another key challenge that should be highlighted. The last comprehensive national survey of the MSE sector in Kenya was undertaken in 1999. There is need to conduct another survey in order to generate evidence from which the government can develop relative activities and policies. Such studies also assist the government in monitoring and evaluating the impact of certain initiatives and/or developments. The government should plan to conduct such studies on a regular basis, given the importance the MSE sector in the economy. The increasing level of informality by MSEs is also of concern, given that such enterprises are not legally recognized.

12.5 Best-Practice Licensing

Some lessons on how to improve licensing in Kenya can be drawn from Indonesia and India, which have reported improvements in licensing procedures. Evidence from India, for instance, indicates that improved licensing contributed to an increase of new firm registrations, increase in output and productivity and a decrease in informality (World Bank, 2013; Chari, 2011; Sharma, 2009). Indonesia provides a good example, as licensing and other business-related procedures were devolved to lower governance structures when the country embarked on a decentralization process. However, this led to an increase in licences and transaction costs. This was largely attributable to the leeway the local governments had in the implementation of national laws. Indonesia undertook reforms in licensing through the introduction of One-Stop Shops (OSS) for licensing at the local government level (Steer, 2006). Initial analysis on the reforms undertaken by a study by Asia Foundation revealed a reduction in time and costs of obtaining licenses. The study, however, also realized the further need to address broader regulatory issues and, therefore, recommended the use of regulatory tools such as Regulatory Impact Assessments (RIA) during such licensing reforms. The study defines RIA as "an analytical tool that helps government identify whether a regulation (such as a license) is needed, what the costs and benefits of the proposed regulation are, and whether there are alternative solutions to regulation" (Steer, 2006: 27).

According to the *Doing Business Report* for Indonesia 2012, government reforms were aimed at simplifying licensing requirements and also setting statutory time limits on issuance of licences at the local authority level. These reforms have been successful in ensuring efficiency in licensing within the local authorities. The report reveals that some authorities amalgamated different licences into a single license. Political goodwill and buy-in is also critical, as was evidenced by a ministerial decree introduced in 2007 to encourage the establishment of one-stop shops nationwide in Indonesia, which led to the creation of one-stop shops, thus contributing to administrative efficiency.

12.6 Policy Recommendations

The government needs to ensure that all licensing, including national and devolved licensing, can be achieved through a single licensing mechanism where MSEs can access several different licensing agencies, business registration, and institutions that administer other statutory rights at one physical location at the county level. This includes licences centralized in parent ministries. This would reduce transaction costs and may consequently encourage investment and contribute to increased licensing due to the reduced business costs of formalization.

As illustrated earlier, the government has commenced the process of providing e-licensing by hosting over 400 relevant licence applications online. With improvement with respect to e-payments, such as mobile money transfer platforms, the government can consider fully automating the licensing process.

With the decentralization of government services in Kenya, some licences are now obtained from county governments as mentioned earlier. Kenya should, however, ensure that this does not lead to a duplication of licences and an increase in the cost of doing business. One way of ensuring this does not occur is by putting in place institutions that would in a sense 'regulate regulators'. The government should, therefore, institutionalize Regulatory Impact Assessments and establish the oversight authority so as to ensure that licences are not arbitrarily introduced without proper objectives, procedures and guidelines. The recently-enacted Statutory Instruments Act of 2013 (Cap 23) provides a systematic approach for regulatory agencies to introduce regulations, but fails to identify an appropriate oversight authority. The one proposed in the Act entails parliament and senate committees, which may not have adequate technical expertise.

As evidenced in Indonesia, one-stop shops can improve licensing efficiency. The one-stop shop mechanism being enacted by the Kenya Investments Authority should not only promote the one-stop shop concept, but also aim to lower transaction costs for MSEs, and reduce business start-up procedures and processing times. To be able to achieve this, the authority should be facilitated in terms of resources, and also in terms of linkages with other important agencies such as the Kenya Revenue Authority.

Given the lack of credible statistics on the MSE sector, the government should find innovative mechanisms to collect and maintain relevant information and statistics on MSEs. Frequently-scheduled national surveys should also be conducted to provide credible current statistics for effective and efficient policy and strategy development and implementation.

Chapter 13

Infrastructure and Economic Services

13.1 Introduction

Infrastructure is a basic pillar for global competitiveness and a foundational enabler to Kenya Vision 2030. All the six key sectors under the Economic Pillar of Vision 2030, namely: agriculture, tourism, wholesale and retail trade, Business Process Outsourcing, financial services and manufacturing, depend heavily on an efficient network of infrastructure. Factor-driven economies, Kenya included, should emphasize infrastructure development to reduce the cost of doing business and enhance efficiency in service delivery to accelerate development. Competitiveness and sustainability questions at sub-national level must interrogate how to stimulate investments in key infrastructure for enhanced service delivery and equitable access.

Well-networked and efficient infrastructure is essential for inter-county market integration, lowering unit costs of production and transactions, facilitating the flow of materials and information, reducing inequalities and poverty and enhancing economic capacity.

13.2 Performance in the Infrastructure Sector

The contribution of the infrastructure sector to GDP was 19.1 per cent in 2012 (Table 13.1). Transport and communications sub-sectors made the highest contribution to GDP over the last three years compared to the other infrastructure sub-sectors. In 2012, transport and storage contributed 7.3 per cent to GDP, which marked a decrease of 0.5 per cent from 2011. The electricity and water supply sub-sector marked the least contribution to GDP at 1.4 per cent in 2012.

Development expenditure in the infrastructure sector experienced an overall increase of Ksh 44 billion between 2009/10 and 2011/12. This is in line with the national development agenda that places emphasis on infrastructure development. However, as shown in Table 13.2, the average absorption rate of funds allocated to the sector has been declining, standing at 75.12 per cent in 2011/12 compared to 81.60 per cent in 2009/10. This means that the sector recorded decreasing capacity to spend allocated funds, which could point to existing inefficiency.

Table 13.1: Infrastructure contribution to GDP (%)

	2008	2009	2010	2011+	2012*
GDP	1.5	2.7	5.8	4.4	4.6
Electricity and water supply	2.1	1.9	1.4	1.1	1.4
Electricity supply	1.5	1.2	0.7	0.4	0.7
Water supply	0.6	0.6	0.7	0.7	0.7
Construction	3.8	4.1	4.3	4.1	4.1
Transport and communication	10.3	9.9	10.1	9.9	9.3
Transport and storage	7.6	7.3	7.5	7.8	7.3
Post and telecommunications	2.7	2.6	2.5	2.2	2.1
Real estate-renting and business services	5.1	4.9	4.8	4.4	4.3
Real estate dwellings, owner-occupied and rented	2.5	2.5	2.4	2.1	2.0
Real estate – renting and business services	2.6	2.5	2.4	2.3	2.3
Total infrastructure	21.3	20.8	20.6	19.5	19.1

Source: Kenya National Bureau of Statistics (2012), Statistical Abstract
+ Revised * Provisional

Table 13.2: Trends in development expenditure and absorption rates in selected infrastructure portfolios (Ksh millions)

Sub-sectors	Approved Estimates			Actual Expenditures			Absorption Rate: Actual/Approved%			
	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12	Avg
Roads	58,491	66,528	77,111	36,577	47,795	59,682	62.53	71.84	77.40	70.59
Trans-port	5,792	6,828	13,906	3,548	3,472	4,178	61.26	50.85	30.04	47.38
Public Works	3,971	4,560	4,961	3,007	4,261	4,142	75.72	93.44	83.49	84.22
Housing	2,124	2,082	2,139	2,063	1,931	1,911	97.13	92.75	89.34	93.07
Energy	33,118	32,623	55,180	32,510	27,534	51,647	98.16	84.40	93.60	92.05
Local Govern-ment	2,375	4,556	3,760	2,056	1,988	2,146	86.57	43.63	57.07	62.43
Nairobi Metro-politan Devel-opment	1,759	1,060	2,044	1,580	1,060	1,939	89.82	100.00	94.86	94.90
Total	107,630	118,237	15,9101	81,341	88,041	125,645	81.60*	76.70*	75.12*	

Source: Government of Kenya (2012)
* Average

Table 13.3: Trends in recurrent expenditure and absorption rates in selected infrastructure portfolios (Ksh millions)

Sub-sectors	Approved Estimates			Actual Expenditures			Absorption Rate: Actual/Approved%			
	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12	Avg
Roads	21,852	23,691	27,201	20,969	23,606	27,191	95.96	99.64	99.96	98.52
Transport	3,389	3,568	3,968	3,286	3,431	3,822	96.96	96.16	96.32	96.48
Public Works	1,671	2,085	1,613	1,232	1,721	1,402	73.73	82.54	86.92	81.06
Housing	1,837	1,715	1,736	1,515	1,563	1,479	82.47	91.14	85.20	86.27
Energy	409	2,283	2,279	362	2,055	2,261	88.51	90.01	99.21	92.58
Local Government	10,547	11,348	18,464	10,285	11,330	18,209	97.52	99.84	98.62	98.66
Nairobi Metropolitan Development	176	118	227	175	118	220	99.43	100.00	96.92	98.78
Total	39,881	44,808	55,488	37,824	43,824	54,584	90.65*	94.19*	94.73*	

Source: Government of Kenya (2012)

* Average

The Nairobi Metropolitan Development sub-sector recorded the best performance in terms of development funds absorption rate at 94.86 per cent in 2011/12, while the transport sub-sector had the least performance with an absorption rate of 30.04 per cent in the same period.

Recurrent expenditure within the sector also increased by Ksh 16 billion between 2009/10 and 2011/12. The sector performed better in terms of absorption rates of recurrent funds to record an average increase of 4 per cent between 2009/10 and 2011/12 as shown in Table 13.3. The roads sub-sector recorded the best performance in terms of absorption rate at 99.96 per cent in 2011/12, while the housing sub-sector had the least absorption rate of 85.20 per cent in the same period.

13.3 Water Sub-Sector

Infrastructure reports on Kenya by the World Bank distinguish the water and sanitation sector as one of the key sectors with extra-high spending needs, requiring about US$ 2 billion annually to meet the Millennium Development Goals. This spending is principally made up of capital expenditure, which accounts for 75 per cent of the total. Central government spending on water and sanitation is, however, a small share of the national income. Utilization of funds through the many channels and government agencies in this sector, low absorption rates of allocated funds, and alignment of expenditure with sector priorities are some of the key issues that call for greater attention and determination. Kenya's Ministry of Water and Irrigation allocates funds to semi-autonomous government agencies (SAGAs), which are catchment-based and not district-based agencies.

The sector has also undergone considerable institutional reform since 2002. Kenya's Vision 2030 aspiration, under the social pillar, includes access to clean, secure and sustainable water and sanitation. As exposed by the 2009 National Population and Housing Census, Kenya is still archetypical of vast regional disparities in access to water and sanitation services. The widespread practice of open defecation is a clear indicator of poor hygiene and exposure to health hazards. The growing use of unsafe water sources further portends Kenya's recession in meeting the Millennium Development Goals (MDGs) for this sector.

Kenya's water and sanitation sector is also hard-hit by technical challenges. Besides the huge funding gaps and resultant under-performance, high system losses are prevalent. Data challenges are enormous, characterized by incompleteness, being largely outdated, and lacking harmonized definitions and frameworks for data capture and spatial disaggregation. The definition of urban or rural areas, for instance, varies across board depending on the standards set by various bodies such as the Kenya National Bureau of Statistics, Ministry of Water and Irrigation (MWI), the Water Services Regulatory Board (WSRB), and the Water Services Trust Fund (WSTF). Similarly, the spatial, quality and quantity parameters used to measure access to water and sanitation services are not uniform, such that international standards adopted by the MDGs differ greatly from the standards adopted by various governmental agencies. The irrigation sub-sector performance is particularly adversely affected, the reason for which it is only marginally discussed in this review. These challenges of data and integrity in standards are a setback to comprehensive comparative analysis of sub-national efficiency in the water and irrigation sector as a whole.

13.3.1 Water sub-sector organization and management

The functions of the ministry are implemented through its four technical departments, namely: Water and Sewerage Services; Water Resources Management; Irrigation, Drainage and Water Storage; and Land Reclamation. The water services sub-sector in Kenya has been restructured since 2002 to provide definite institutional roles and responsibilities, as presented in Table 13.4.

The institutional framework in the Water Act 2002 has, at the apex, the Ministry of Water and Irrigation, charged with the development of legislation, policy and strategy formulation, and overall sector investment planning and resource mobilization. Other institutions include the Water Appeals Board (WAB) for arbitration of disputes and conflicts, the Water Resources Management Authority (WRMA) for catchment and source protection, the Kenya Water Institute (KEWI) for training and research, the National Water Conservation and Pipeline Corporation (NWCPC) for construction of dams and drilling of boreholes, and the Water Services Trust Fund (WSTF) for financing pro-poor water services infrastructure. The water services sub-sector comprises the Water Services Regulatory Board (WASREB), Water Services Boards (WSBs) and Water Service Providers (WSPs).

The responsibility to plan, develop and expand the water infrastructure (assets) is entrusted with the Water Services Boards (WSBs). To ensure stakeholder participation, the Water Service Providers (WSPs) were created covering specific urban or rural areas. The WSPs are responsible for the operation and maintenance of water assets as well as provision of water supply and sanitation services and are regulated by Service Provision Agreements. Although a water infrastructure index is not available, the current state of infrastructure does not reflect the corresponding rise in investments. The network is generally characterized by low value for money and poor impact of investments.

Table 13.4: Roles and responsibilities of institutions in Kenya's water services sub-sector

	Institution	Roles and responsibilities
1.	Ministry of Water and Irrigation (MWI)	Development of legislation, policy and strategy formulation, sector coordination and guidance, and monitoring and evaluation Overall sector investments planning and resource mobilization
2.	Water Services Regulatory Board (WASREB)	Regulation and monitoring of service provision (Water Services Boards and Providers) Issuing of licences to Water Services Boards Setting standards for provision of water services Developing guidelines (water tariffs, etc) Mechanisms for handling complaints
3.	Water Services Boards (WSBs)	Efficient and economical provision of water services Developing water and sewer facilities, investment planning and implementation Rehabilitation and replacement of infrastructure Applying regulations on water services and tariffs Procuring and leasing water and sewerage facilities Contracting Water Service Providers (WSPs)
4.	Water Service Providers (WSPs)	Provision of water and sanitation services, ensuring good customer relation and sensitization, adequate maintenance of assets and reaching a performance level set by regulation
5.	Water Services Trust Fund (WSTF)	Financing provision of water and sanitation to disadvantaged groups (pro-poor) as water poverty fund
6.	Water Appeals Board (WAB)	Arbitration of water-related disputes and conflicts between institutions and organizations
7.	National Water Conservation and Pipeline Corporation (NWCPC)	Construction of dams and drilling of boreholes
8.	Water Resources Management Authority (WRMA)	Water catchment and source protection
9.	Kenya Water Institute (KEWI)	Training and research

There are eight Water Services Boards (WSBs) spread regionally across the country: Athi, Tana, Coast, Tana Athi, Northern, Rift Valley, Lake Victoria South and North WSBs. They are delineated on the basis of catchments, administrative boundaries and economic viability. WSPs are commercial organizations with the sole mandate of operating and maintaining water and sewerage services as prescribed in the Service Provision Agreement (SPA) between WSBs and WSPs. Most of the current WSPs are owned by local authorities, though set up as independent entities registered under the Companies Act, Cap 486 of the Laws of Kenya.

13.3.2 Trends in the water and sanitation sub-sector performance

The average annual precipitation in Kenya is estimated at 365.6 km^3. The country's water scarcity index continues to worsen with rapid population growth, and is expected to fall from approximately 500 m^3 per capita per year to as low as 359 m^3 per capita per year by 2020 (Salami et al., 2011). Less than 20 per cent of the country's safe yield of renewable freshwater resources has been exploited (Salami et al., 2011). The national target is to achieve safe water services coverage of 80 per cent by 2015 (WASREB, 2010). However, inefficiency has for long been a typical characteristic of Kenya's water utilities. This fact manifests itself in the sector's underperformance, both in terms of quality and spatial coverage of water services. It is evident from the business-as-usual scenario that Kenya will not meet the MDG target for water and sanitation by 2015, unless an accelerated push for radical changes is implemented. Uganda is, however, on its way to surpassing the MDG target for improved water sources, and will only face a big challenge in trying to meet the target for improved sanitation.

Despite major institutional reforms with good corporate governance, the sector still faces key challenges in addressing distribution losses, recently estimated at 40 per cent compared to 33 per cent for other low-income African countries. Another key challenge is under-pricing, a stark irony given that Kenya is a water-scarce country. The performance of Kenya on key water and sanitation indicators in 2009 as compared to other countries is shown in Table 13.5 (based on AICD, 2010). In the subsequent figures, sub-national performance is shown based on the Kenya Population and Housing Census of 2009. Lack of common standards in data categorization and inferences is manifested in the different performance outcomes based on different information sources. Standardization is, therefore, essential to uniform and comparable reporting of

Table 13.5: Benchmarking Kenya's water and sanitation indicators, 2009

	Unit	Low-income countries	Kenya	Middle-income countries
Access to piped water	per cent pop.	10.1	17.9	56.4
Access to stand posts	per cent pop.	16.1	9.4	20.4
Access to boreholes/wells	per cent pop.	38.3	21.6	6.3
Access to surface water	per cent pop.	33.8	46.4	13.9
Access to septic tanks	per cent pop.	5.3	9.0	44.0
Access to improved latrines	per cent pop.	9.3	8.0	0.9
Access to traditional latrines	per cent pop.	47.9	64.3	33.0
Open defecation	per cent pop.	37.1	18.3	15.8
Domestic water consumption	Litre/capita/day	72.4	63.0	Na
Urban water assets in need of rehabilitation	per cent	35.5	42.0	25.0
Revenue collection	per cent sales	96.0	95.0	99.2
Distribution losses	per cent production	33.0	40.0	23.1
Cost recovery	per cent total costs	56.0	58.0	80.6
Total hidden costs as per cent of revenue	per cent	130.0	173.9	84.9

Source: World Bank (2010)

sub-national performance in the sector, and the case of inferring what qualifies as rural versus urban (and sometimes peri-urban) for disaggregation is a clear example.

Overall, the sector incurs huge hidden costs mainly in terms of under-pricing and unaccounted-for water (AICD, 2010). During 2009/10, for instance, Non-Revenue Water (NRW) was about 162 million cubic meters, an equivalent to Ksh 8.6 billion (assuming Ksh 53 per cubic meter). This casts a worrying picture, given that the huge figure accounted for approximately a third of the annual water sector development budget for 2009/10 and potential access for additional 4.6 million people (WASREB, 2010). In 2011, NRW was estimated at 63 per cent and 45 per cent for rural and urban areas, respectively. These figures compare unfavourably with the 25 per cent threshold and are equivalent to Ksh 10.4 billion or one third of the annual development budget for water supply and sanitation services.

Despite having almost double the rate of access to piped water compared to low-income African countries, Kenya's rate of access to stand posts and boreholes/wells is about half the level realized in these low-income countries. The AICD (2010) Country Report for Kenya has rightly ascribed this outcome to over-concentration of investment in high-end solutions (piped water) as opposed to more affordable intermediate modes of access such as stand posts and boreholes. The 2009 Census Report indicates that 52.6 per cent of Kenyans in urban areas have access to piped water (Government of Kenya, 2010b).

The metering rate measures the number of connections with operational meters to the total number of connections. Metering water supply is critical in controlling NRW and for managing per capita water consumption. A higher metering rate means that consumers are charged according to what they actually consume. Urban areas have a higher metering rate of 87 per cent compared with 72 per cent in rural areas. Both of these are way below the 95 per cent threshold. This implies that the rest of consumers are charged based on estimates, a situation that creates suitable conditions for illicit trade in water.

The current average revenue collection rate for both urban and rural areas is 82 per cent (with high possibility of inclusion of arrears). This rate varies greatly depending on the projections, water production and control in NRW. Revenue collection efficiency, defined as the amount of funds collected by a water utility compared with the total amount billed in a given period, depicts its institutional capacity. The indicator further reflects the willingness to pay, which may reveal the level of customer satisfaction.

13.3.3 Sub-national equity in access to water and sanitation

Access to water supply and sanitation services is measured against specific distance, cost, quality and quantity parameters. Time can be derived from the distance dimension, as it influences travel time, but it also includes waiting time for a more rigorous approach to calculating "weighted access". Access in urban areas is usually rated against more rigorous standards than in rural areas. Urban areas, according to the MoWI, WASREB and WSTF, are spatial units (sub-locational entities) with a population density in excess of 400 persons per km^2. The KNBS uses a threshold of 2,000 persons per km^2 to define urban areas; rural areas are otherwise, with a population density falling below these figures under each categorization. The thresholds for these access parameters vary, such that data from different sources give different impressions of access levels to water and sanitation. This makes it difficult to compare performance levels across regions, unless a common standard is adopted.

Improved water sources in rural areas in this review are taken to be household pipe connections, public standpipes, boreholes, protected dug wells, protected springs, *Jabia* and rainwater collection.

To harmonize national and cross-country comparison and monitoring of progress towards the MDGs, the Joint Monitoring Programme (JMP) has standardized the definition of access to water supply services as the availability of at least 20 litres per capita per day from an "improved" source within one kilometre of the user's dwelling. Nevertheless, for urban areas in Kenya, only the census data falling under "piped into dwelling" and "piped" water are taken to be improved sources under this review as stipulated by the higher national standards adapted by WASREB.

The global standard for improved sanitation includes connection to public sewers, connection to septic systems, pour-flush latrines, simple covered pit latrines and ventilated improved pit (VIP) latrines. The unimproved sanitation category covers bucket latrines, public latrines and open or uncovered latrines. Shared toilets in urban areas are included in this category of improved sanitation.

The graphical analyses in the following sections based on the 2009 Census show that a significant 44 per cent of Kenyans rely on unprotected water sources, mainly made up of streams, lakes, ponds, dams, water vendors and unprotected wells and springs. The contribution of boreholes is significant at 11 per cent nationally, though access to piped water (both public pipes and 'piped into dwelling') is more pronounced in urban centres (53% in urban areas; 30% nationally; and 16% in rural areas). According to the same 2009 Census data and going by this classification of improved sources, only 49 per cent of Kenyans had access to improved water sources.

13.3.4 Overall access to improved water sources in counties

The observed urban-rural differences in the parameters of measuring access to improved water sources necessitate the computation of a weighted average when estimating the overall access to improved water sources in an entire county (where essentially both rural and urban areas are found). In the results below, the sizes of rural and urban households per county were used to weight the mean access to improved water sources in the counties.

In terms of overall access to improved water sources at county level by 2009, Nairobi (75.7%), Taita Taveta (65.5%), Nyeri (65.2%), Garissa (63.3%) and Uasin Gishu (62.8%) are top five. These scores are higher than the national average of 48.5 per cent. Twenty six (26) counties score below the national average, with Migori County (15.0%) being the last as shown in Figure 13.1. Generally, wherever the principal source of water is a stream, there is a poor score on overall access to improved water sources.

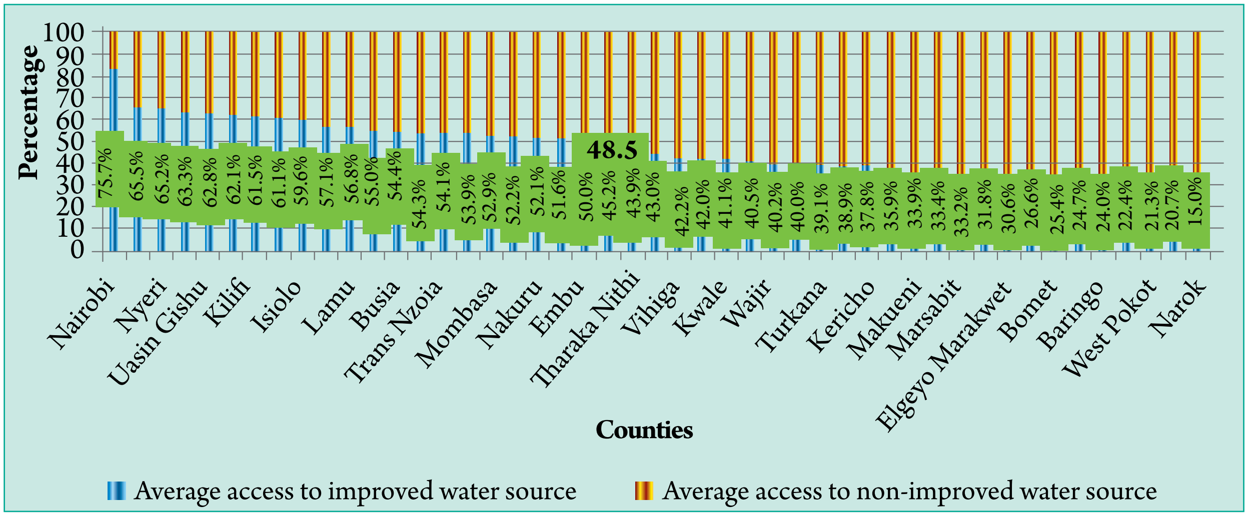
13.3.5 Access to improved water sources in urban areas by county

In the urban category, Isiolo County leads in access to improved water sources with a score of 85.1 per cent, followed by Garissa (84.7%), Taita Taveta (84.3%), Meru (82.6%) and Nyeri (79.9%) in the top five. Twenty eight (28) counties score below the urban access average of 53.1 per cent. Wajir is last in this category, with only 2.5 per cent of its urban households having access to piped water. Underperformance in urban household access to piped water is also prevalent in Migori, Vihiga and Kisii counties, each scoring below 10 per cent. Only 16 out of the 47 counties had access to improved water sources by urban household standards above the urban average access of 53.1 per cent by 2009.

13.3.6 Access to improved water sources in rural areas by county

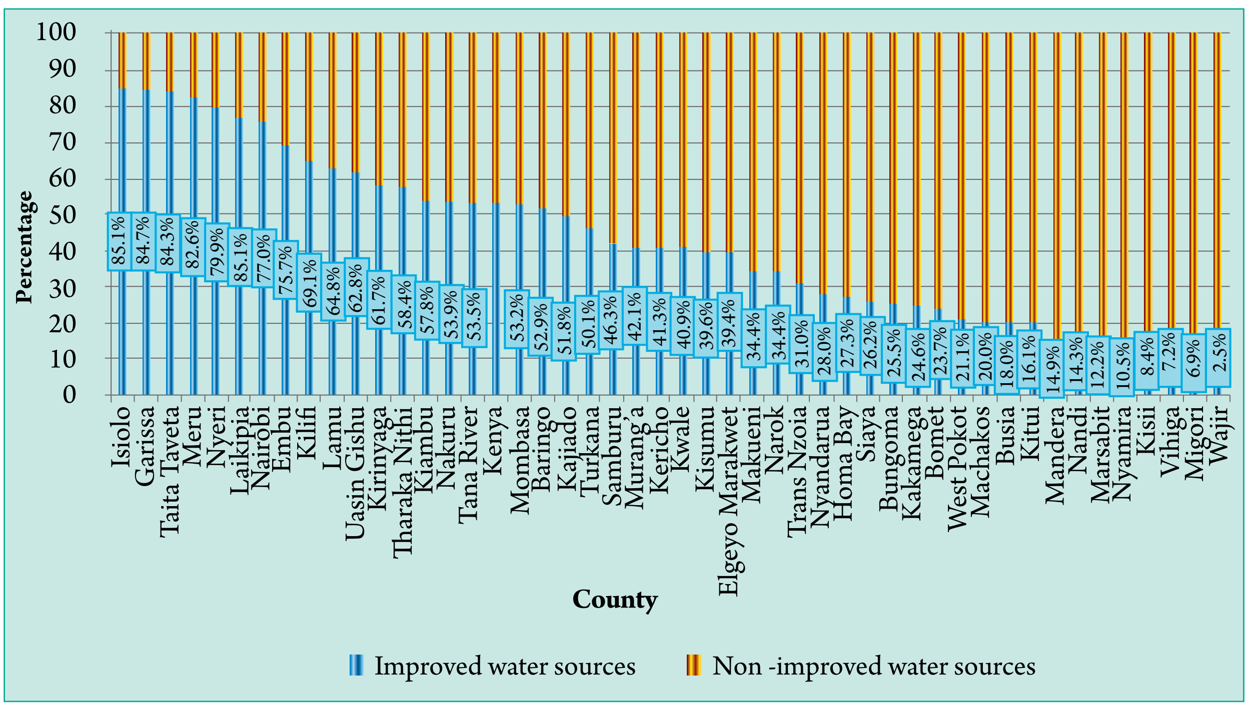
In the rural category, Bungoma County leads in access to improved water sources with a score of 69.9 per cent, followed by Uasin Gishu (63.8%), Kiambu (63.4%), Nyandarua (61.3%), Trans Nzoia (61.3%)

Figure 13.1: Overall county household access to improved and non-improved water sources



Source: Government of Kenya (2010b)

Figure 13.2: County urban household access to improved and non-improved water sources



Source: Government of Kenya (2010b)

and Taita Taveta (61.0%) in the top six. Twenty four (24) counties score below the average rural access of 45.7 per cent. Narok is last in this category with only 19.2 per cent of its rural households having access to improved water sources by rural standards in the year 2009.

13.3.7 Overall access to sanitation in counties

Access to improved sanitation is very low, especially in rural areas with about 21 per cent of the rural households using poor faecal disposal methods such as buckets and bushes. Slightly over 3 per cent of urban households use such poor methods, and 14 per cent of households nationally (Government of Kenya, 2010b). The figures on access to sanitation show the proportion of households with access to various means of sanitation by county as well as the national and rural-urban comparisons. The analysis presented has consolidated the 2009 Census data into improved and unimproved sanitation by counties and urban-rural divide.

Based on the analysis of overall access to adequate sanitation in the counties, Wajir, Turkana, Mandera, Samburu, Tana River, Marsabit, West Pokot, Garissa and Kwale are the counties with very low access to adequate sanitation. Access to improved sanitation in each of these counties in 2009 fell below 35 per cent. This is indicative of extremely poor access relative to the national average access to improved sanitation of 65 per cent in 2009. Only 21 out of the 47 counties score above the national average access to improved sanitation. Overall, household connection rate to the main sewer is highest in the following five counties: Nairobi (47.7%), Mombasa (13.9%), Laikipia (10.1%), Uasin Gishu (8.1%) and Nakuru (8.0%). Their performance in connection rate to the main sewer was above the national average of 7.7 per cent (Government of Kenya, 2010b).

13.3.8 Access to sanitation in urban areas by county

At almost 80 per cent, the average access to improved sanitation in Kenya's urban areas was in 2009 better than the average national access of 65 per cent, and far better than the rural average (56%). This means a much lower proportion of urban households use poor faecal disposal methods such as buckets and bushes. The use of non-improved sanitation methods in urban areas was particularly high (above 50%) in Wajir, Turkana, Mandera and Elgeyo Marakwet counties. Again, the Northern Kenya region is most affected by this poor rating, and Nyanza region follows closely. In this urban household category, much fewer counties, only 14 out of 47 had access to improved sanitation of above the urban household average of 80 per cent. The concentration of urban households in a few urban areas especially Nairobi and Mombasa–indicative of urban primacy in the country–explains, in most part, this skewed outcome. According to the same 2009 Census data, the top four (4) counties in terms of their urban household connection rate to the main sewer were Nairobi at 47.7 per cent, Laikipia at 34.9 per cent, Uasin Gishu at 16.7 per cent and Nyeri at 16.6 per cent. The proportion of urban households connected to the main sewer nationally by 2009 was only 19.5 per cent; Nairobi and Laikipia are, therefore, the only counties that so far have a connection rate to the main sewer for urban households that is above the national urban average.

13.3.9 Access to sanitation in rural areas by county

The average access rate to adequate sanitation in rural areas in 2009 was at 56 per cent. Among rural households, counties that had the lowest access to improved sanitation (below 30%) were Turkana, Wajir, Mandera, Samburu, Marsabit, Tana River, Isiolo, Garissa, West Pokot and Kwale. It can be seen that most of these are located in the deprived Northern Kenya region.

Vihiga, Kakamega, Kirinyaga and Meru were rated as the top four counties in terms of rural household access to improved sanitation, each scoring above 76 per cent. The top four (4) counties in terms of their rural household connection rate to the main sewer were Embu (0.54%), Taita Taveta (0.49%), Nyeri (0.43%) and Kiambu (0.42%). At below 1 per cent of the rural households, this connection rate is still extremely low by any standards, and this is also reflected in the overall proportion where only 0.18 per cent of Kenyan rural households are connected to the main sewer.

The analyses above show that Kenya is still far from attaining sub-national equity in access to improved sanitation. Rural areas are especially hard-hit, with high prevalence of poor waste management methods. Connection to the main sewer is dismal at less than 10 per cent nationally, about 20 per cent for urban households and less than 1 per cent for rural households. Connection rate to the main sewer is only concentrated in key urban centres such as Nairobi, Mombasa, Nakuru and Eldoret. This calls for key policy action to ensure equity in access to improved sanitation nationally and affordable options for improved sanitation in rural areas.

13.4 Roads Sub-sector

13.4.1 Performance in the roads sub-sector

The roads sub-sector recorded good performance in the period 2009/10 – 2011/12. This was marked by successful achievement of intended outputs from the various programmes in the sub-sector. Most of the targets were surpassed mainly due to completion of projects such as construction of new roads, bridges, rehabilitation of roads and periodic maintenance. Table 13.6 provides a summary of the performance in the roads sub-sector.

13.4.2 Budget, financial expenditure and requirements

In 2011/12, the Kenya Roads Board Fund collected Ksh 23.7 billion from the Road Maintenance Levy Fund (RMLF), Ksh 350 million from transit tolls, and Ksh 80 million from agricultural cess and other sources.

As shown in Table 13.7, there was an increase in the figures of approved estimates for recurrent expenditure from Ksh 21 billion in the 2009/10 to Ksh 27 billion in 2011/12. Similarly, the actual recurrent expenditure increased from Ksh 20 billion to Ksh 27 billion during the period under review. Resources for development have been on an increasing trend from Ksh 58 billion in 2009/10 to Ksh 77 billion in 2011/12 and Ksh 36 billion in 2009/10 to Ksh 59 billion for approved estimates and actual expenditure, respectively.

13.4.3 Sub-national analysis of the roads sub-sector

Analysis of the roads sub-sector can be undertaken by monitoring the road density. By definition, road density in a county is the ratio of the length

Table 13.6: Performance in the roads sub-sector 2009/10 – 2011/12

Sub-programme	Intended output	Output achieved	Remarks
Construction of:			
Roads	312	386	The target was surpassed due to completion of some of the on-going projects
Bridges	8	12	The target was surpassed due to completion of some of the on-going projects
Rehabilitation of roads	373	450	The target was surpassed due to completion of some of the on-going projects
Periodic maintenance	800	821	The target was surpassed due to completion of some of the on-going projects
Routine maintenance	66,855	71,690	The target was surpassed due to completion of some of the on-going projects
Roads 2000	465	116	Under-achievement due to lack of funds

Sub-programme	Intended output	Output achieved	Remarks
Design of roads and bridges	14	14	Target met
Rehabilitation and maintenance of roads in national parks and game reserves	600	575	Target not met due to procurement issues
Capacity building for roads and buildings	400	426	The target was surpassed due to more enrolment of students

Source: Government of Kenya (2012)

of the county's total road network to the county's land area. Road density gives an indication of accessibility within the county, which is the ease with which goods and services and can be reached. Increased accessibility has significant implications in enhancing development and spurring economic and social development. Therefore, for the purpose of interpretation, it can be assumed that a county with a high road density would be highly competitive because its goods, services and economic activities can be easily reached with reduced cost of production and better spatial interaction. Figure 13.3 presents an analysis of the road network density for all 47 counties. The leading counties in road density are Mombasa, Nairobi and Kiambu, while the bottom three counties are Marsabit, Garissa and Tana River. It can be argued that the leading counties have attributes of being highly urbanized and have developed growth centres marked by high productivity, while the bottom three counties are classified as marginalized regions. It is, therefore, imperative that strategic interventions be put in place to improve the road density in poorly-performing counties in order to spur competitiveness and bolster balanced national development.

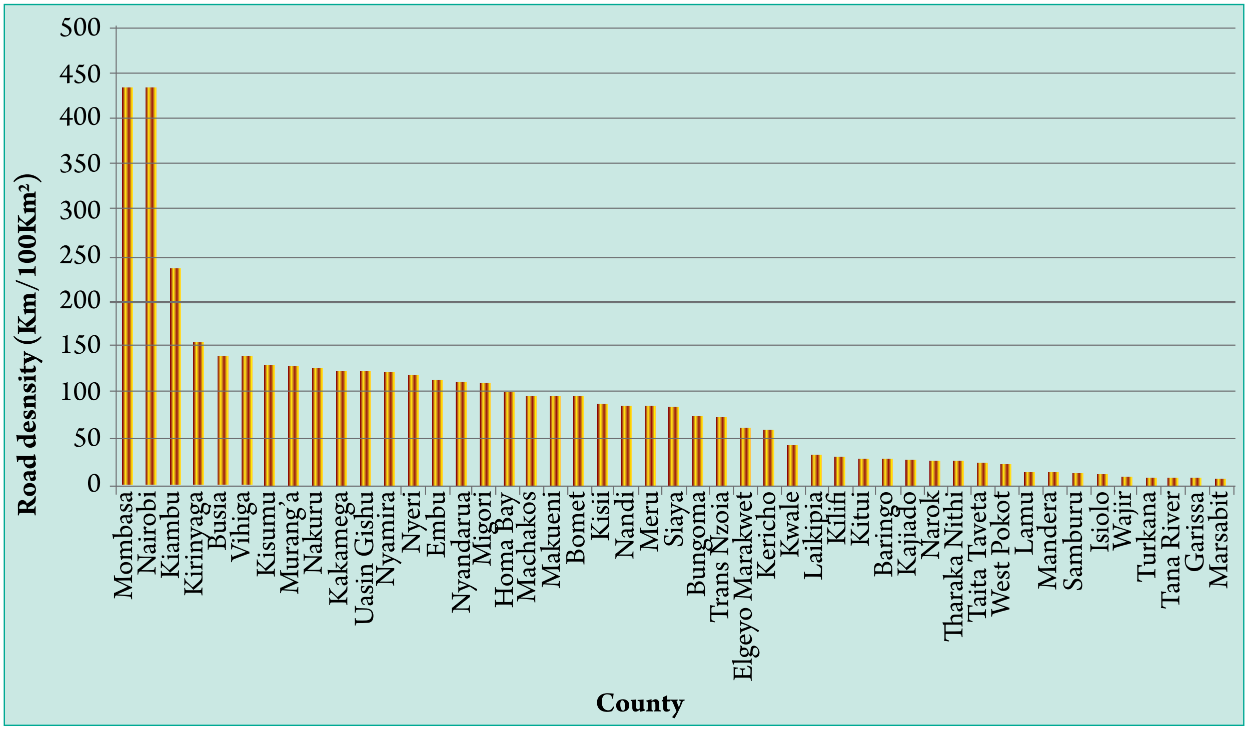
It is also important to assess the quality and condition of existing roads within the counties because road conditions have serious implications on counties' competitiveness. It can be argued that while a county may have sufficient road density and a large network of roads, it will not necessarily be competitive if the road conditions are bad. Figure 13.4 presents the road conditions in the 47 counties; the conditions presented are based on roads in good and fair condition as a percentage of the total road network in a particular county. The analysis reveals that Isiolo, Nyamira and Elgeyo-Marakwet perform

Table 13.7: Analysis of roads sub-sector expenditure (Ksh millions)

Expenditure	Approved Estimates			Actual Expenditure		
	2009/10	2010/11	2011/12	2009/10	2010/11	2011/12
Recurrent	21,852	23,691	27,201	20,969	23,606	27,191
Development	58,491	66,528	77,111	36,577	47,795	59,682
Total	80,343	90,219	104,312	57,546	71,401	86,873

Source: Government of Kenya (2012)

Figure 13.3: Road network density by county



Source: Authors' construct from the Kenya Roads Board data

best in terms of road conditions, while Tharaka Nithi, Machakos and Meru have the poorest conditions. It should, however, be noted that the analysis is influenced by the total road network within the county, whereby a county with fewer road networks would appear to perform better.

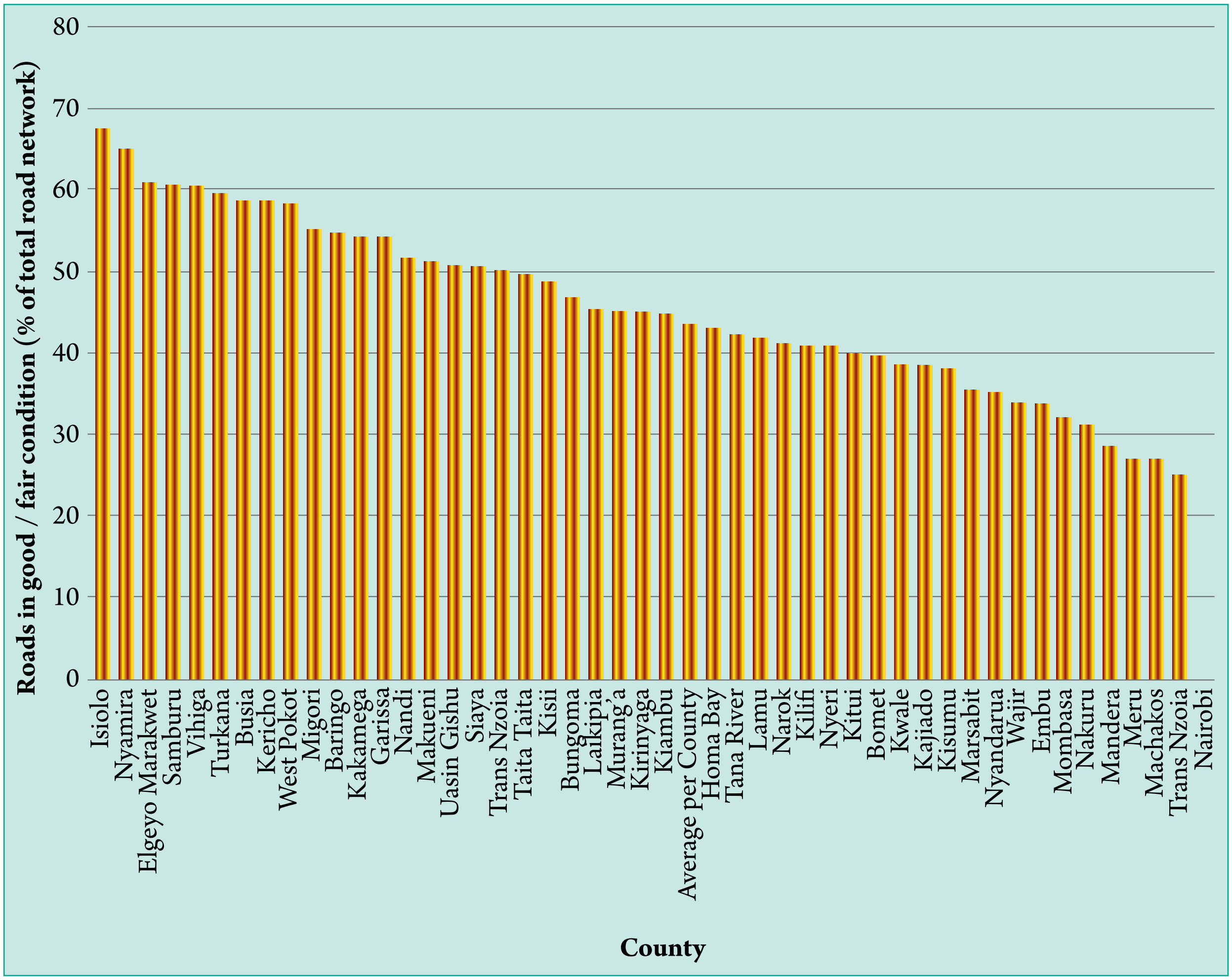
13.5 Conclusion

Kenya's water, sanitation and irrigation sub-sector has realized major policy changes and restructuring that are geared towards ensuring proper regulations and adequate service delivery. Inadequate data and non-uniform standards, however, still pose key challenges to ensuring harmony and comparability of service levels at local levels.

Overall, there is a wide rural-urban divide in access to water and sanitation, with urban areas scoring higher access levels. This is further testimony to the fact that higher population density tends to favour urban areas in the provision of infrastructure and economic services. Irrigation coverage is still far too negligible, and the dearth of data appears as a key hindrance to disaggregated analyses. There is need to upgrade and expand infrastructure in water supply to reduce non-revenue water. This will also improve access rates and equity.

The roads sub-sector has continued to show improvement, with increased expenditure and absorption of development funds. However, a look at the sub-national indicators of road infrastructure development across counties reveals disparities. To address these disparities, there is need for concerted efforts by the national and county governments to increase and attract investment for road infrastructure development.

Figure 13.4: Road conditions by county



Source: Authors' construct from the Kenya Roads Board data

Chapter 14

Environment and Natural Resources

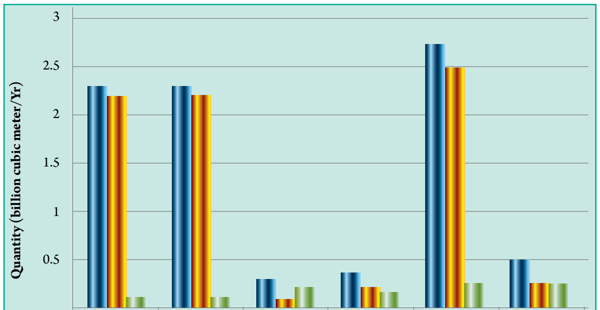
14.1 Water Sub-Sector

14.1.1 Introduction

Water resources underpin the country's main economic sectors: agriculture, livestock, tourism, manufacturing and energy. The social, economic and environmental aspects of water signify its importance in the country's sustainable development, attainment of Vision 2030 targets and realization of human rights. Prudent management of water is essential in minimizing resource-use conflicts within the country and with countries sharing water resources. In 1992, Kenya was categorized as a water scarce country with per capita renewable water resources of 647 m^3 (Ministry of Water and Irrigation and JICA, 1992) comprising 20,637 m^3 total renewable resource surface water and 619 m^3 ground water. About 50 per cent of the country's water resources are trans-boundary. These include Lake Victoria, Lake Turkana, Lake Jipe, Mara River, Ewaso Ng'iro South River, and Merti and Kilimanjaro aquifers. There is no formal agreement with any riparian state on the management of these resources, with the exception of draft cooperative agreements for Lake Turkana-Omo, Mara River Basin, Sio-Malaba-Malakisi and a draft Memorandum of Understanding - MoU for Lake Jipe-Challa. The process of securing an MoU for the sustainable management and development of Lake Turkana, River Omo and the Daua Basin with Ethiopia has been initiated (Government of Kenya, 2012a). Joint management frameworks will have to be harmonized with national policies taking into consideration international principles governing trans-boundary waters. Kenya needs to strengthen her negotiation capacity in regional and international water initiatives.

Water quantity, quality, storage and demand are the main indicators used to assess water resources. The country's surface water is distributed in five drainage basins divided into six water resource management regions, namely: Lake Victoria North, Lake Victoria South, Rift Valley, Athi, Tana and Ewaso Ngi'ro North. The water resource is skewed and unevenly distributed, with Tana River, Lake Victoria North and South accounting for an 86 per cent of the total water resource. Accurate figures are difficult to obtain, since only 65 per cent of stream flows are monitored (Water Resources Management Authority, 2011).

Figure 14.1: Distribution of water resources, 1992



	Lake Victoria North	Lake Victoria South	Rift Valley	Athi	Tana	Ewaso Ng'iro North
Total	2.29	2.29	0.29	0.36	2.73	0.49
Surface	2.19	2.19	0.08	0.21	2.48	0.25
Ground	0.1	0.1	0.21	0.15	0.25	0.24

The governance framework in the water sector is based on the reforms initiated a decade ago through the National Water Policy Sessional Paper No. 1 of 1999, which were operationalized by the enactment of the Water Act in 2002. The reforms aimed at improving service delivery, community participation and increased investments in the sector. The reforms resulted in the separation of water service delivery and water resources management functions under management of two semi-autonomous agencies: the Water Resources Management Authority (WRMA) and the Water Services Regulatory Board (WASREB), respectively. WRMA is responsible for planning, management, protection and conservation of water resources; allocation, apportioning and assessment of resources; issuance of water rights; enforcement of permit conditions; and control of water use. The Catchment Area Advisory Committees (CAACs) advise WRMA on water resources at catchment level, while the Water Resource Users Associations (WRUAs) have a role in identifying and registering water users, collaborating with WRMA in water allocation and catchment management, and assisting in monitoring and conflict resolution.

The reforms adopted an Integrated Water Resources Management approach and intensified activities on forestry, soil conservation, improved land use and water catchment management.

The Water Services Trust Fund (WSTF) provides a mechanism for supporting water and sanitation services to marginalized groups. Arbitration of disputes and conflicts are addressed by the Water Appeals Board (WAB). The institutional framework includes the National Water Conservation and Pipeline Corporation (NWCPC), the Kenya Water Institute (KEWI) and the National Irrigation Board (NIB) as specialized agencies responsible for construction of dams and drilling of boreholes, training and research and irrigation development, respectively. Table 14.1 shows the roles and responsibilities of the various institutions.

Table 14.1: Roles and responsibilities of institutions in the water sector

Institution	Roles and responsibilities
Ministry of Water and Irrigation (MWI)	• Development of legislation, policy and strategy formulation, sector coordination and guidance, and monitoring and evaluation • Overall sector investments planning and resource mobilization
Water Services Regulatory Board (WASREB)	• Regulation and monitoring of service provision (Water Services Boards and Providers) • Issuing of licences to Water Services Boards • Setting standards for provision of water services • Developing guidelines (water tariffs, etc) • Developing mechanisms for handling complaints
Water Services Boards (WSBs)	• Efficient and economical provision of water services • Developing water and sewer facilities, investment planning and implementation • Rehabilitation and replacement of infrastructure • Applying regulations on water services and tariffs • Procuring and leasing water and sewerage facilities • Contracting Water Service Providers (WSPs)

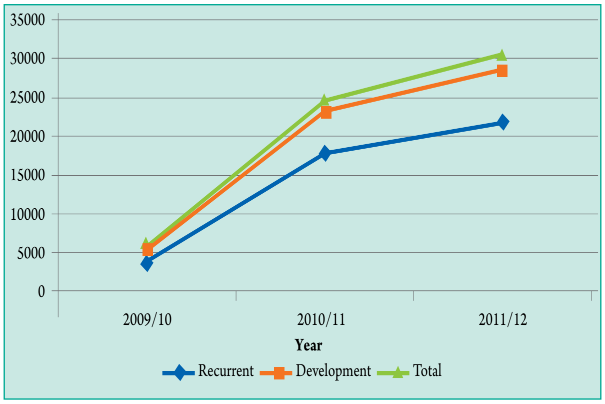
Institution	Roles and responsibilities
Water Service Providers (WSPs)	• Provision of water and sanitation services, ensuring good customer relations and sensitization, adequate maintenance of assets and reaching the performance level set by regulation
Water Services Trust Fund (WSTF)	• Financing provision of water and sanitation to disadvantaged groups (pro-poor) as water poverty fund
Water Appeals Board (WAB)	• Arbitration of water-related disputes and conflicts between institutions and organizations
National Water Conservation and Pipeline Corporation (NWCPC)	• Construction of dams and drilling of boreholes
Water Resources Management Authority (WRMA)	• Protection and conservation of water resources • Planning , control and monitoring of water resource allocation • Water rights and enforcement of permits • Coordination of the Integrated Water Resource Management approach
Kenya Water Institute (KEWI)	• Training and research
Catchment Area Advisory Committees (CAACs)	• Provide advice to WRMA on water resources at catchment level
Water Resource Users Associations (WRUAs)	• Identification and registration of water users • Collaboration in water allocation and catchment management • Support water monitoring and data gathering • Conflict resolution

Water storage is critical in water resource management. Vision 2030 sets the per capita national water storage capacity target of $8M^3$ by 2012. Only $5.3M^3$ was actually realized, a 34 per cent short fall. During the 2011/12 period, 24.22 million cubic meters were realized as a result of rehabilitation of Sasumua Dam and completion of Maruba and Kiserian dams (Ministry of Forestry, 2012). At the same time, 198 small dams contributed 4.55 million cubic meters. Low funding, rapid population growth and slow uptake of rainwater harvesting strategies hampered performance. Disaster management is an important area in water security. During the period 2011/12, a total of 5km dykes were constructed on rivers Nyando and Daua, while a 7.1km drainage channel was trenched on River Nyando.

In 2009, the proportion of rural households with access to improved water was 48 per cent, while in urban areas it was 75 per cent. These statistics are very worrisome since they reflect slow progress towards the MDG goal of halving, based on the 1990 base year, the proportion of the population without access to safe drinking water by 2015. It is important to note that the global target was realized in 2010.

The sector has witnessed increased budgetary allocations in recent years, although huge gaps remain a major challenge. For example, actual expenditure increased from Ksh 21.748 billion to Ksh 30.343 billion in three years between 2009/10 and 2010/11, about 40 per cent increase. The trend in both recurrent and development expenditure is shown in Figure 14.2.

Figure 14.2: Actual expenditure in the water sector, 2009-2012



The rise was, however, far below the projected Ksh 86 billion. This frustrated efforts to adopt measures on operational efficiency, accountability and sustainability, which are essential in improved sector performance. Although the development budget increased by more than threefold, there are big differences in allocation to various sub-sectors. In 2010/11, 77 per cent of development funds were allocated to water supply and sanitation and 20 per cent to irrigation, drainage and water storage. Allocation to water resources management was only 2 per cent.

The responsibility to plan, develop and expand the water infrastructure (assets) is entrusted to the Water Services Boards (WSBs). To ensure stakeholder participation, Water Service Providers (WSPs) were created, covering specific urban or rural areas. The WSPs are responsible for the operation and maintenance of water assets as well as provision of water supply and sanitation services and are regulated by Service Provision Agreements. Although a water infrastructure index is not available, the current state of infrastructure does not reflect the corresponding rise in investments. The network is generally characterized by low value for money and poor impact of investments.

14.1.2. Challenges

Kenya's surface water is generally described as both brown and turbid due to contamination from point and non-point pollution. During the rainy season, surface water contains a high concentration of dissolved and suspended matters, suggesting a link between water pollution and unsustainable land management practices at the water towers. This pollution could be due to municipal sewage, industrial waste, agro-chemicals, agricultural activities and sediment load from soil erosion (Government of Kenya, 2012b). The problem of water quality is exacerbated by excess abstraction of both surface and ground water. Poor water quality is a health concern, reduces industrial capacity through high cost of removing pollutants, destroys ecosystems and affects biodiversity. In the period 2011/12, a total of 4,808 km^2 of water catchments were mapped, targeting the Mau Complex, Aberdares, Cherengany and Mt. Kenya with 3,360,000 and 180,000 seedlings grown in the Mau Complex and Nyando catchments, respectively (Ministry of Forestry, 2012).

The Non-Revenue Water (NRW) is a big challenge in the sector. NRW is water that does not generate any revenue and is mainly caused by water losses and unbilled authorized use. Water losses can also occur where consumption is unauthorized (illegal connections) or metering devices are inaccurate. Leakages from supply lines, including overflows at the storage facilities, distribution mains, and storage tanks as well as at service connections up to the point of customer metering are other causes of NRW. The performance of most institutions in the sector is poor. The performance of the Water Services Boards is mixed; while the sector has benefited from increased investments, the governance of these boards is weak, and the benefits of asset separation have not been realized. The NWCPC has also exhibited poor governance and accountability of assets, investments, financial and operational performance.

Although stakeholder participation was a key principle of the reforms, the decision making process is largely centralized. The institutions meant to foster stakeholder participation, particularly the Water Users Associations (WRUAs) and the Water Service Providers, have either not been established or are weak. As a result, the water apportionment and allocation practices are dominated by ministry officials. For example, by 2010, only 28 per cent of potential WRUAs had been established across all the catchments, with Rift Valley recording the highest level at 71 per cent while Tana River had only 14 per cent (WRMA, 2011). Low participation of stakeholders contributes to weak enforcement of rules and regulations. Efforts to strengthen participation of WRUAs in the Lake Naivasha Basin, for example, have met great resistance from some flower growers. The lake is, therefore, threatened by over-abstraction to support the horticulture and hotel industry.

Degradation of catchment areas, including the country's water towers, reduces the quantity and quality of the discharge to water bodies. Catchment degradation is due to population growth and deforestation, resulting from destruction of natural vegetation through unsuitable land use practices, poorly environmentally-assessed developments such as infrastructure, forest excision for settlement, wood fuel, illegal logging and human encroachment.

14.2 Forestry

14.2.1 Background

Forest ecosystems offer complex dynamic economic natural resources and are capable of providing a wide range of economic, social and environmental benefits. They provide various ecosystem services such as watershed protection, carbon sequestration, habitat protection and aesthetic value. Environmental services include regulation of water flow, soil erosion control, nutrients recycling, and capacity to modify the environment for survival of other organisms. Forests also act as safe havens for wildlife during dry periods. They offer different habitat regimes for migratory species. Most Kenyan forests provide unique sceneries that are ideal for recreation, as well as unique settings for medical research and education in environmental issues. They also provide products and services that contribute directly to the well-being of people, and are vital to our economies, environment and daily lives. While forests and woodlands are now recognized as essential for human life, their benefits and services are valued differently by different people and groups. Moreover, the numerous roles that forests are expected to play in local, county, national and global development continue to change over time. The shifting and sometimes conflicting expectations create difficult policy challenges related to both the forestry sector and national development.

Despite the immense contribution of forests, their existence is threatened, as evidenced by extensive reduction in forest cover in various forest ecosystems in the country over time. However, any unsustainable management practices of forests will affect forest structure, catchment functions and could contribute to the dying of rivers that originate from them. Changes in land use from forest to other uses may result to imbalances in the carbon cycle, resulting in the accumulation of excess carbon dioxide in the atmosphere. Forests and trees are renewable resources which, if managed sustainably, can meet the demand for raw materials for wood-based industries, fuel wood and a wide range of non-wood forest products. However, forest management has previously emphasized utilization, with little regard to sustainability, particularly with regard to indigenous forests.

14.2.2 Review of the performance of the forestry sub-sector

Forest plantation stocking increased from 121.7 thousand hectares in 2011 to 127.1 thousand hectares in 2012, mainly due to improved forest guarding and enforcement. A total of 7,400 hectares were planted with trees in 2012, compared to 8,000 hectares in 2011. The area clear felled/logged declined to 2,000 hectares in 2012 compared to 3,900 hectares in 2011 (Table 14.2).

In Kenya, most forests are either under public ownership (managed by the Kenya Forest Service – KFS and Kenya Wildlife Service–KWS) or owned by local communities (managed in trust lands by Local Authorities) or private forests. While public and community forestlands have declined in area over the years, mainly due to excision, private forestry has increased due to increased private sector interest in commercial planting and expansion of farm forestry (Table 14.3). While the extent and quality of forest resources have deteriorated, demand for forest products continues to be on the rise, fuelled by rapid population growth, among other factors. One beneficial side effect of the reduced supply of

Table 14.2: Government forest plantation stocking, 2007-2012

	Area ('000 Ha)					
	2007	2008	2009	2010	2011	2012*
Previous plantation area^	105.4	107.2	108.9	112.7	118.8	121.7
Area planted	5.5	5.7	3.5	9.6	8.0	7.4
Total	110.9	112.9	112.4	122.3	126.8	129.1
Area clear felled	2.0	3.0	1.8	2.8	3.9	2.0
Planting failure/damages	1.7	1.0	3.0	0.7	1.2	0.0
Total area	107.2	108.9	112.7	118.8	121.7	127.1

Source: FAO (2010), Kenya National Bureau of Statistics (2013), Economic Survey
*Provision
^ opening stock at the beginning of the year

Table 14.3: Categories of forest ownership in Kenya

Forested area (1,000Ha)		Categories of ownership			
		1990	2000	2005	2010
Public ownership		1,490	1,404	1,364	1,364
Private ownership		2,218	2,178	2,158	2,103
	..Individual-owned	1	2	5	10
	..Private business entities and institution-owned	67	76	78	80
	... Local community-owned (includes trust land forests managed by Local Authorities)	2,150	2,100	2,075	2,013
Total	3,708	3,582	3,522	3,467	

Source: FAO (2010), Country Report for Kenya

forest products has been the stimulation of farm forestry (Table 14.3).

The country has in the recent past witnessed renewed interest backed by strong political will to address challenges facing the forestry sector. Kenya Vision 2030, the Forest Policy 2007, the Forest Act 2005, the coming into force of the National Land Commission and the drafting of the National Land Policy as well as the Constitution of Kenya 2010 all give prominence to the forestry sector. Despite these legal frameworks and strong political will, increase in forest cover has not been substantial due to a multiplicity of factors. The upsurge in population, coupled with poor governance, has been identified as the major drivers of deforestation and degradation of forest resources in Kenya. Population increase results in increased pressure on land for settlement and farming. Poor governance, on the other hand, is attributed to corruption, policy failures, poor management regimes, low institutional capacity, inadequate community empowerment and devolution of power, poor law enforcement mechanisms, among others. While the data may not be available to reflect recent forest cover changes, Table 14.4 shows the trend in changes in forest cover over the period 1990-2010.

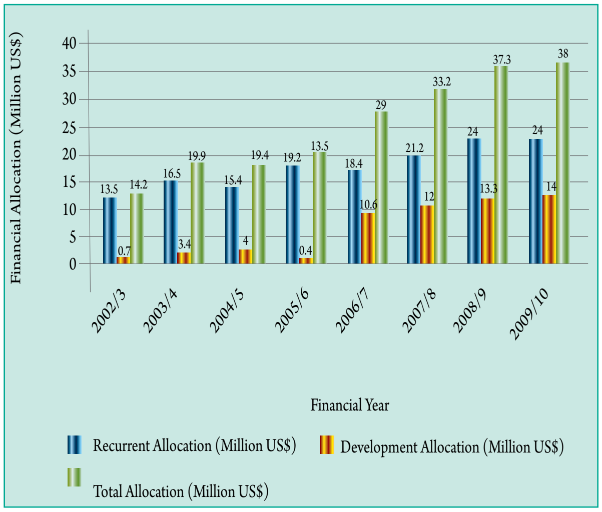
Establishment of farm and private forests is one of the priority areas with the potential to move Kenya from low forest cover to the internationally recommended standard of 10 per cent. Unfortunately, the country still lacks a clear systematic inventory of private and farm forests. With demand for timber products being on the rise, especially as a result of devolution, forest plantations will be the source of timber production for commercial purposes.

Table 14.4: Trend in forest cover, 1990-2010

Category of Forests	Area ('000Ha)			
	1990	2000	2005	2010
Indigenous closed canopy	1,240	1,190	1,165	1,140
Indigenous mangroves	80	80	80	80
Open woodlands	2,150	2,100	2,075	2,050
Public plantation forests	170	134	119	107
Private plantation forests	68	78	83	90
Farms with trees	9,420	10,020	10,320	10,385
Total	**13,128**	**13,602**	**13,842**	**13,852**

Source: FAO (2010), Country Report for Kenya

Figure 14.3: Financial allocations for the forestry sector (collections) 2002/03-2009/10



Source: Constructed from FAO(2010)

Due to the prominence given to environmental conservation by various policy frameworks in Kenya, including the Constitution, there should be substantial and increased funding to support the forestry sub-sector. Indeed, the allocation has doubled since 2002/03 (Figure 14.3). Revenue collection has more than doubled between 2009 and 2010. Table 14.5 shows the revenue collection for the sector, the most significant observation being that plantation timber (round wood) is the most important source of revenue, and that projected revenue (2012) would rise from US$ 12.11 million to US$ 28.51 million if the logging ban is removed.

While the allocation for the sector has increased over the years, Figure 14.4 shows that 55 per cent of

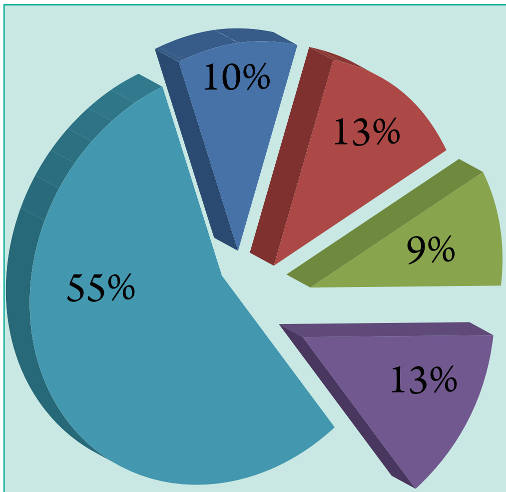
Table 14.5: Actual and projected revenue collection, 2009-2012 (US$ millions)

Source of revenue	Actual collection (US$ millions)		Revenue projections with ban in force (US$ millions		Revenue projections with ban lifted (US$ millions)	
	2009	2010	2011	2012	2011	2012
Sale of plantation timber (round wood)	3.50	9.20	10.10	11.10	26.20	27.50
Power transmission poles	0.20	0.22	0.75	0.82	0.75	0.82
Fees collected from PELIS	0.07	0.06	0.12	0.16	0.12	0.16
Annual licence fees	0.13	0.03	0.03	0.03	0.03	0.03
Total	3.90	9.51	11.0	12.11	27.10	28.51

Source: FAO (2010)

the funding was allocated to recurrent expenditure in 2011/12. The general expectation would be that more allocation would have been on conservation and management, as well as forest extension programmes, as these would directly contribute to increase in forest cover.

Figure 14.4: Projected budget requirements for KFS by programme, 2011/12 (% of total expenditure)



Source: Authors' construct from Kenya Forest Service data (2009)

Institutional cultural change from the *modus operandi* to the business culture expected in the 2005 and 2007 forest legislation may not be achieved with ease. Besides, the absence of checks and balances and lack of participation by all stakeholders could derail the reform process. The country still lacks clear cooperation mechanisms between agencies sharing responsibilities. There are complexities involved in participatory forest management. Already, communities are expecting unconstrained access to and use of forest resources, an attitude which must be tempered through learning, mechanisms to share costs and benefits (World Bank, 2007).

14.2.3 Legal framework for the forestry sub-sector

Kenya is considered a Low Forest Cover country with a total land area classified as forest of less than 6 per cent, far much less than the internationally accepted minimum requirement of 10 per cent. However, the figure is contested due to the definition of forest to include private forest. While the development policies of the Government of Kenya are driven by the objective of achieving Vision 2030, the Constitution of Kenya (2010) places the protection of the environment and natural resources under the national government with a view to establishing a durable and sustainable system of development. Specifically, Article 69 (1) (b) obligates the state to maintain a tree cover of not less than 10 per cent. However, the implementation of specific national government policies on natural resources and environmental conservation, including soil and water conservation and forestry is vested in the county governments.

Kenya is a signatory to several international commitments, including the Convention on Biological Diversity (CBD), the United Nations Framework Convention on Climatic Change (UNFCCC), and the United Nations Framework Convention on Combating Desertification (UNFCCD). Kenya has also taken part in inter-governmental forest-related processes, including the Intergovernmental Forum on Forests (IFF 4) in 2000, where governments reaffirmed their support for the Proposals for Action on forests. Most of these commitments directly or indirectly involve forests, and thus their inhabitants. They provide a potential framework for national and local coordination and the building of synergies among all stakeholders, including indigenous and local communities and other actors. The Forest Act 2005 and the Forest Policy 2007 emphasize the need to institutionalize the forestry sector. Key provisions in these legislations include the involvement of communities through community forest associations (CFAs). Kenya's economic blueprint, Kenya Vision 2030, notes that a sound environmental management that prevents degradation of natural resources such as water and forests is the basis for economic growth. In particular, the economic pillar aims to maintain a sustained economic growth of 10 per cent per annum over the next 25 years. Forestry is important in this aspect not only in terms of consumable products but also in terms of the impact its exploitation has on the environment and the productivity of other sectors, especially water and agriculture. The sub-sector is the backbone for other functional roles, which include protection of watersheds and biodiversity conservation. The sub-sector is also important in contributing to the direct and indirect benefits. It is estimated that the forestry sub-sector contributes about US$ 88 million to Kenya's Gross Domestic Product (GDP) and stimulates capital formation worth US$ 3 million (FAO, 2004).

14.2.4 Forestry sector linkages with other sectors of the economy

Kenya's forests comprise a range of different forest types characterized by marked regional differences, with different forest values and opportunities for exploitation. These conditions are likely to change over time as a result of factors including new information on forest ecology and community attitudes; new management strategies and techniques under various county governments, such as those that incorporate community management principles; and new commercial and non-commercial opportunities for forest use. These pressures for change affect both forest conservation and local livelihood strategies. The Forest Policy of 2007 is very clear in terms of the involvement of stakeholders and communities in forest management. While this alone cannot adequately address these needs, the related national policies (water, agriculture, land and environment) should provide a framework within which pressures for change can be identified and accommodated, so that forests are conserved in the long term and local communities derive optimal benefits from forests and forest resources. Managing Kenya's forests sustainably is the major challenge, especially with the devolved system of governance and, therefore, requires policies that can be adapted to accommodate varying county conditions, and forest product needs over time.

Forestry as a sub-sector of the Kenyan economy is important in contributing to direct and indirect benefits. However, in the past, the forestry sub-sector contribution to GDP has been reflected at a dismal constant value over the years (approximately 1.3% and 13% of monetary and non-monetary economy, respectively). Notwithstanding this reflection, it is estimated that the forestry sub-sector and other associated enterprises and industries support approximately 10,000 households through formal employment, and generate direct financial revenue to the Kenya Forest Service of about US$3 million annually (FAO, 2010). It is estimated that about 3 million forest-adjacent people derive cash income and meet their subsistence needs through the use of this resource. However, the associated value of forests is not reflected in national statistical abstracts. Therefore, there is need for forest resource valuation and mainstreaming of forestry in national accounting systems, and addressing the issue of inadequate information on the status of forest resources (quality, quantity, growth and yield trends) for planning forest land use changes (excisions, expansion of cultivated lands).

Pressures and demands imposed on forest ecosystems and resources are often caused or influenced by factors outside the forestry sector. Forests serve as water catchment areas, are sources of wood fuel, habitats for wildlife, may contain mineral deposits and impinge on agricultural activities. For this reason, the policies in these sectors (Water, Energy, Mining, Lands, Wildlife and Agriculture) should have a clear linkage to the Forest Policy. Further, forests are also found on local authority (now county) lands and are under pressure for settlement. There is need to create synergies between the policies that govern the counties as well as land use. Appropriate mechanisms for achieving harmonization of the various sectoral policies that touch on forestry should urgently be put in place.

14.3 Mineral Sub-Sector

14.3.1 Introduction

According to the Constitution of Kenya (2010), all natural resources (including those below the surface) belong to the government. In this context, the government owns the resources in trust for the people of Kenya, bringing into focus some type of a principal-agent relationship. However, the same Constitution gives a significant number of responsibilities to the government with regard to its duty to the citizenry. As such, the government must remain accountable to its people regarding all its functions and operations and specifically with regard to management of natural resources for the benefit of the country. In development of mineral resources, this can be done by ensuring that the governments' dealings with explorers (and later developers) are in the interest of the state while attracting activity in the mineral sub-sector. In other words, the elements of the Production Sharing Agreements (the preferred mode of engaging investors in Kenya) must in no way compromise economic and constitutional goals while remaining attractive to investors.

Kenya is endowed with a variety of mineral resources including base metals (gold, silver, copper), dimension stones (granite, marble and limestone), industrial minerals (fluorspar, titanium and limestone), gemstones (ruby, sapphire, rhodolite) and chemical minerals (soda ash, carbon dioxide, salt and hydrocarbons), and recently, fossil fuels (coal, oil and gas). Minerals occur in a variety of locations in Kenya, and some of these areas have limited alternative sources of economic activity. Kenya is under-explored as far as petroleum and natural gas are concerned. There are positive indications of hydrocarbon potential in the form of oil seeps, gas and oil, but only relatively few exploration and development wells have been drilled.

14.3.2 Review of the Sector

The biggest discoveries of oil have been the Ngamia 1 and Twiga oil wells, the Lamu gas fields, and most recently the discovery of rare earth metals in Kwale County. Kenya is witnessing an increase in exploration activity following the recent discovery of oil in Turkana County. Because of the petroleum and natural gas wealth find, more than a dozen international oil and gas companies are now in operation in Kenya, including companies from the United Kingdom, China, Japan and the United Arab Emirates. The oil, gas and coal sector has the potential to generate significant direct and indirect economic benefits for Kenya and, if managed wisely, can contribute to sustainable development. Mining development will also provide an important opportunity for economic development away from Kenya's main urban and commercial centres.

Table 14.6: Growth rate of GDP by industry (2008-2012) percentage changes

Industry	2008	2009	2010	2011	2012
Forestry and logging	0.5	0.3	0.2	0.2	0.6
Mining and quarrying	0.9	-0.8	0.7	0.7	0.4
Electricity supply	6.6	-3.3	3.3	-1.7	4.3
Water supply	1.1	0.8	0.3	0.4	0.5
Construction	16.3	14.9	2.7	3.5	3.7
Total	25.4	11.9	7.2	3.1	9.5

Source: Kenya National Bureau of Statistics, Economic Surveys, 2011-2013

The contribution to GDP from the environment and natural resources sector, by industry, is shown in Table 14.6, calculated as percentage changes. From the table, it is apparent that the largest contribution comes from electricity supply and construction industries. However, the total contribution to the

GDP has declined by more than half since 2008, with a slight increase to 9.5 per cent in 2012. The decline in contribution from forestry and logging can be attributed to government policy to reclaim the Mau forest and other ecosystems.

14.3.3 Mineral exploration: Emerging issues and challenges

14.3.3.1 Legal, regulatory and institutional reform

The policies, laws and institutions that presently govern the mineral sector in Kenya need significant reform if the sector is to grow sustainably and contribute to economic development and poverty reduction in the counties. The highest priority must be given to finalizing the Geology, Mining and Mineral Bill (2013), which has remained in draft form for some years. Kenyans need a shared vision of how the development of mining will take place at the counties, building on experiences gained from Titanium mining in Kwale. The Bill must define the role and mandate of the state and its public mining institutions, and make very clear what public institutions at the county level will exercise; what the regulatory roles are and the relationships between them; how, if at all, decentralization might apply to governance of the mineral sector; specify the environmental obligations of operators consistent with internationally recognized safeguard standards; define arrangements governing provision for community development and benefits sharing, including the roles to be played by different stakeholders; and address the rights of vulnerable groups that might be impacted adversely by mineral sector development and measures for their protection.

14.3.3.2 Government revenue collection

The development of a productive and profitable mineral sector can provide a new source of government tax revenues that could be substantial relative to non-mineral revenue sources. It will be important to ensure that Kenya obtains a fair share of mineral rents but, in doing so, it must strike the right balance between inducing investment at the counties and generating tax revenue. This calls for a fiscal regime for the mineral sector that takes account of the uncertainty, risks and rewards inherent in mineral operations and recognizes that Kenya, particularly in this early phase of oil and gas sector development, competes for investment with countries that may offer equal or better investment opportunities within the region.

It is well known that natural resource exploitation of oil and gas requires extensive investment before it becomes valuable and beneficial to the society. It requires investment in infrastructure, physical capital and knowledge. Developed countries such as the US were built upon natural resources. For instance, they invested heavily in the infrastructure of public knowledge and education in the mining sector, and based on an accommodating legal environment. Thus, investing in knowledge is a legitimate component of a forward-looking economy that will be an ultimate objective of the government.

14.3.3.3 Politics, dispute management and environmental issues

Oil and natural gas development faces political and environmental issues. Political issues stem from the overlapping and disputed claims of economic sovereignty. Environmental issues pertain to the preservation of animal and plant species unique to the areas where oil, gas or other minerals have been discovered, particularly Turkana and Kwale. The environmental impact of oil exploitation is a dominant driver for most technology development in the industry today. Although much of this effort is focused on waste treatment and disposal, a significant amount of waste prevention will be crucial. Development of technologies to displace less material during mining will result in reduced environmental impact. A long-term vision for the industry would find constructive use for all material removed in the oil drilling area.

Kenya has a maritime boundary dispute with Somalia, in the Indian Ocean waters. There are also gazetted oil and gas exploration blocks that are located in the disputed area offshore the Lamu Basin, and resolution of the dispute will be required to avoid resource-fuelled disputes, which are even harder to mediate than others. The disputed Ilemi triangle between South-Sudan and Kenya also lies in the Tertiary Rift Basin stretching over three exploration blocks in that region. Although it takes time to resolve sovereign boundary disputes, it is important that faster solutions are sought to foster confidence with international companies. There has not been disagreement between exploring companies in Kenya, but the Ugandan scenario should be a strong lesson for Kenya in formulating laws to govern such partnerships.

14.3.3.4 Managing expectations

Like most mineral resources, oil exploration and exploitation takes place in the location of the resource and, subsequently, transformations (physical and socio-economic) are bound to occur in the area of discovery as it accommodates this new activity. With such transformations, especially in remote areas where oil and other minerals are, sensitive issues will arise which, if not addressed beforehand, may cause unnecessary tension and civil strife in future. Specifically, different stakeholders have different expectations regarding the economy of the country and especially those in the location where the resource is located. Turkana County has the highest poverty level of about 94 per cent, and is the sixth least densely populated county in Kenya. The county is among the five least developed in terms of infrastructure and other supporting socio-economic facilities. The burning question in the minds of the locals is what the national government will do to ensure citizens (especially those domiciled next to resource sites) have the correct information, capacity and expectations to avoid unwarranted anxiety and excitement.

Although development of the oil resource will take a few years to commence, there has not been any systematic attempt to establish opinions and expectations of the public, who will be largely affected by the projects. There exists a lot of expectations at different levels of society with respect to the resource, and there has not been any identification of these expectations and ways to manage them. This has the potential of breeding negative sentiments in future, if the unidentified expectations of different groups are not met, and are not managed early enough.

Imperatively, the government must take cognisance of the fact that, like any other non-renewable resource, oil (in general hydrocarbons) could be compared to a capital asset granted to a country for a limited period of time, and it must, therefore, be used for the greatest and sustainable benefit of a country. This brings into focus the relevant issue of the government's general objectives with respect to the hydrocarbon sector. The statement of such objectives by the government would help in drafting laws, regulations and setting up institutions geared towards achieving the stated objectives. Perhaps because evaluations on the discoveries are still ongoing in Kenya, there are still uncertainties regarding the resource extent, and the government has not stated in any conclusive manner its overall objectives with respect to the resource. Since exploration and development of oil resources are long-term activities, the state should have very clear objectives of how to handle both stages before signing any contracts with investors. In most cases, a government's objectives regarding exploration and development of oil resources revolve around the issues of sovereignty, economic growth and environmental protection.

14.3.3.5 Transparency, rents transfer and rent seeking

Transparency is key to achieving public acceptance of a contract. It is a necessary condition to allow civil society and the public to provide an informal mechanism of checks and balances, where formal mechanisms are not adequate. Transparency is the only way to dispel the constant concerns of greed and corruption often associated with mineral contracts, and it prevents government officials from agreeing to the terms that the citizenry may deem unacceptable and subject to constant criticism and attack. Public and private sectors have different interests, which overlap with social welfare. Political stability is fundamental to government, while the private sector is concerned with stable property rights. Thus, the government has two competing objectives, that is to maintain stability and to promote investment to achieve economic growth. Asset redistribution is central for stability in the counties as devolution takes root.

Experiences from other countries show that there is a significant disconnect between mining companies and the local governance structures in the areas in which they are located, resulting in distrust between the local communities and mining companies. The secrecy within which many mining agreements are drafted and signed, and the lack of involvement of the local citizens in decision-making and lack of information regarding the resources has been a major source of mistrust and disgruntlement in the mining sector. Thus, transparency and accountability are important issues for the industry in Kenya. Transparency includes the disclosure of the terms of contracts and the payments due to both the locals and the state.

14.3.3.6 Devolution and land issues

The ongoing decentralization process that establishes a bottom-up development planning system is a potential avenue to catalyze development of the mineral sector in counties. However, it must overcome the reluctance of the central government to devolve responsibilities and budget to the county administrations, which stems from concerns over weak administrative capacity and lack of effective accountability at the counties.

Large-scale mining has a big appetite for land. The land currently used or will be used for mining was traditionally used for agriculture and pastoralism, both being major factors in sustaining local livelihoods, especially those of the Turkana people. Many of the people who are likely to be affected do not know their rights, and the amount of compensation they ought to eventually receive, a fact that the multinational companies may take advantage of. Sometimes, the companies compromise or collaborate with government administrations to avoid making payments. There is need to develop a clear mechanism of engagement by the mining companies and the local people with elaborate guidelines on land acquisition and compensation.

14.3.3.7 Resource curse and institutional set-up

Existing empirical evidence seems to demonstrate without exception that countries that have managed to circumvent the resource curse demonstrate superior organizational settings, with sound institutions or good leadership able to insulate windfalls from political interferences. Weak institutions may lead to wasteful spending or distorted allocations. It is widely recognized that the quality of political and economic institutions, such as the type of property rights arrangements and the quality of state bureaucracy, determines to a great deal whether natural resource rents will be managed to the benefit of the economy and society. This is clearly negatively evidenced by the disappointing case of Nigeria's Niger Delta. With natural resource wealth such as oil, there can be so much wealth floating around the government that it can be easier to engage in unproductive rent-seeking activities than in creating more wealth. This is the situation Kenya should avoid at all costs.

Lessons from around the world emphasize that oil and gas sector growth will need to be managed wisely to avoid mismanagement, inequitable sharing of benefits and disregard of the interests of the environment and communities. Economic policies and public financial management will have to be adapted to take into account the potential magnitude and volatility of mineral revenue flows and decide how revenues might be allocated. Reforms should take advantage of the county devolution process to catalyze sustainable development out of mineral sector growth in counties. However, this will require devolution of responsibilities and budget to the county administrations, coupled with improved administrative capacity and effective accountability.

14.3.3.8 Regional implications

The discovery of oil and gas in Kenya has implications and presents new opportunities to chart a sustainable growth and development path for Kenya. The first implication is that Kenya will now have renewed energy to push for the development of the facilities necessary to transport and export oil, and specifically to build a huge deep-water port on the resort island of Lamu and a pipeline across Northern Kenya to connect to the port. These projects are already underway for South Sudan to export its oil without having to go through Sudan. These projects will need to be fast-tracked. Kenya will also be hopeful its oil will give it greater influence in regional and international affairs.

For Kenya's neighbour, Ethiopia, the discovery of oil in Turkana is of particular interest. The East African Rift Basin, where the oil was found, is divided between Kenya and Ethiopia. If there is oil on the Kenyan side, then there is a very good chance there is oil on the Ethiopian side too. We expect exploratory drilling in Ethiopia to gain momentum. If these explorations are successful, Kenya still stands to benefit as land-locked Ethiopia, and South Sudan, may need to use Kenyan pipelines and ports to export their oil.

14.3.4 Way Forward

The recent discoveries of oil, gas and rare earth minerals suggest that these will be potentially important resources for Kenya going forward. How they contribute to the imperative of job creation and ensure inclusive and sustainable development will depend on how the country manages the oil and gas value chain. It must be recognized that oil and gas sectors, from examples in other jurisdictions in Africa, generally do not create jobs or allow for inclusive development. They will only do so if accompanied by a matrix of policies, programmes and projects that engender transparency and foster economic diversification. These must be supported by an effective, capable, well-capacitated state and human resource base at all levels of government.

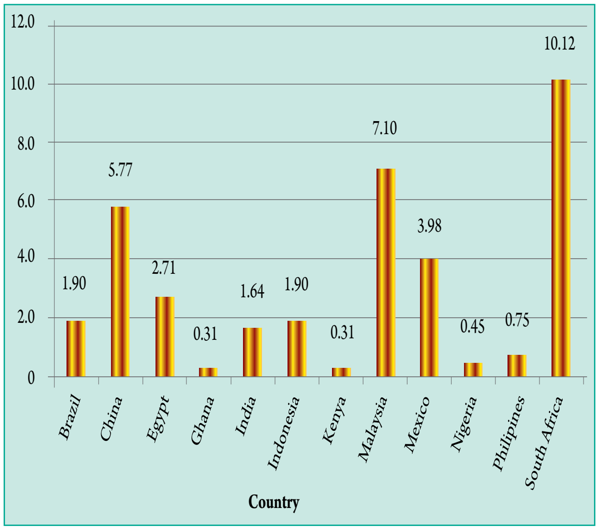
Kenya should develop a comprehensive Kenya Natural Resource Charter based on the Constitution of Kenya (2010) and, leveraging on good practices globally, give it the force of law. It should be adopted by all the 47 county assemblies and endorsed by Parliament to guide the operations of the oil and gas sector as well as the rest of the extractive industries in Kenya. This will help in ensuring that benefits and costs are shared throughout the whole country in an acceptable manner, and reduce the tensions and conflicts that have been the bane of such efforts globally.

While giving prominence to oil exploitation, Kenya should be cautious given that such resources bring risks in that too many people become locked in low-skill intensive natural-resource-based industries, and thus fail – through no fault of their own – to advance their own or their children's education and earning power. The oil sector directly generates very few jobs, the bulk of employment is consequently from the non-oil economy and the non-oil tradable sector. Therefore, good economic policies will matter to transform rents into sustained growth for Kenya and create value in the extractive value chain, hence job creation and durable poverty reduction especially in the counties where oil will be mined and given that poverty levels in the region are the highest. The capacity of policy formulation and execution in a coordinated way is thus fundamental. The country context and political economy matter a great deal, but should not be the main driving force behind windfall management, to avoid excessive rent-seeking activities, inefficiency and wasteful spending.

14.4 Climate Change

Kenya's contribution to the causes of climate change is low. As shown in Figure 14.5, per capita carbon dioxide emission for Kenya in 2009 was a paltry 0.31 metric tonnes compared with 7.1 metric tonnes for Malaysia, 0.45 for Nigeria, 10.12 for South Africa and 5.77 metric tonnes for China (World Bank, 2012). The emission level is expected to increase with high GDP growth rate as aspired in Vision 2030. Paradoxically, just like other countries in Sub-Saharan Africa, Kenya bears the brunt of climate change and variability. The six leading sources of GHG emissions are agriculture, forestry, energy, waste, industrial processes and transport. These sectors are also central in the national economy and in the attainment of Vision 2030. Per capita emission for selected countries is shown in Figure 14.5.

Figure 14.5: Per capita CO^2 emissions for selected countries, 2009



Over the past 50 years, temperatures increased by 1^0C, a warming rate of 1.5 higher than the global average (Christensen et al., 2007), while rainfall is highly variable in most parts of the country. Although there has been general warming in the country, the coastal zone has showed a general cooling trend.

Table 14.7: Observed temperature changes, 1960-2006

	Min. (night) temperature		Max. (day) temperature	
Region	Trend	Range ^{0}C	Trend	Max (day) temperature ^{0}C
Western	Increase	0.8-2.9	Increase	0.5-2.1
Northern/ Northern Eastern	Increase	0.7-1.8	Increase	0.1-1.3
Central	Increase	0.8-2.0	Increase	0.1-0.7
Southern Eastern	Increase	0.7-1.0	Increase	0.2-0.6
Coastal	Decrease	0.3-1.0	Increased	0.2-2.0

Source: Government of Kenya (2010)

Over two-thirds of the country receives less than 500 mm of rainfall per year, and 79 per cent has less than 700 mm per year (ICPAC, 2007). Climate extremes, notably drought and rainfall, are more frequent and threaten sustainable development and livelihoods dependent on climate-sensitive resources. Generally, climatic extreme events have a substantially higher risk in ASALs, which make up about 80 per cent of the country.

The vulnerability of Kenya is explained by the dominance of environmental and natural resource sectors in the national economy, and low adaptive capacity. For example, agriculture is largely rain-fed, and changes in precipitation either in quantity and/or timing have a great impact on production. In some parts of the country, changes in rainfall patterns are responsible for a shift in planting

Figure 14.6: Rainfall trends in Garissa

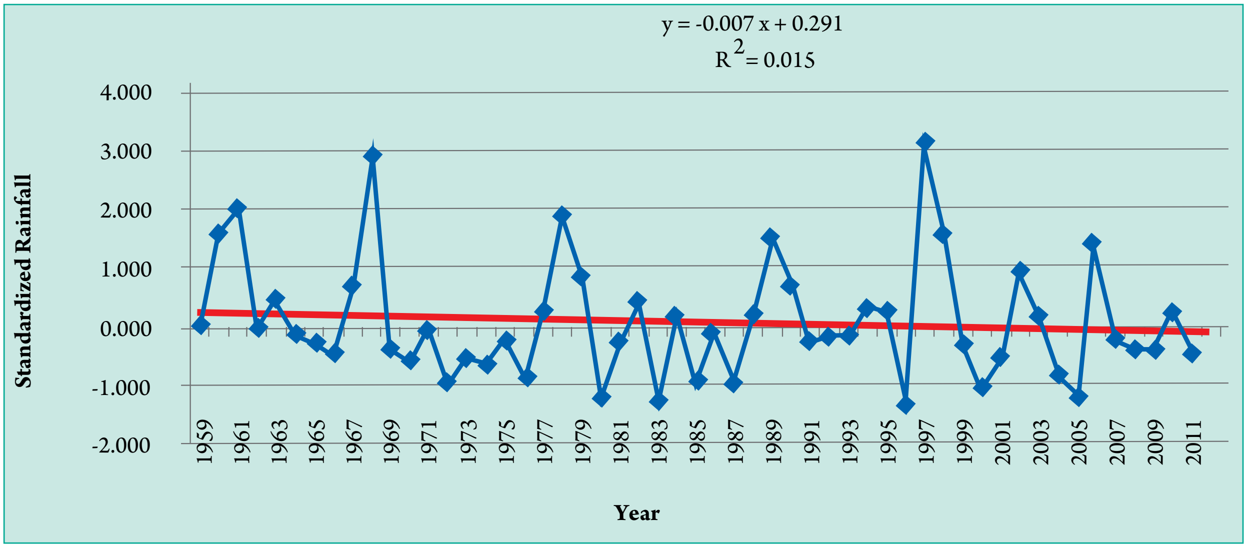
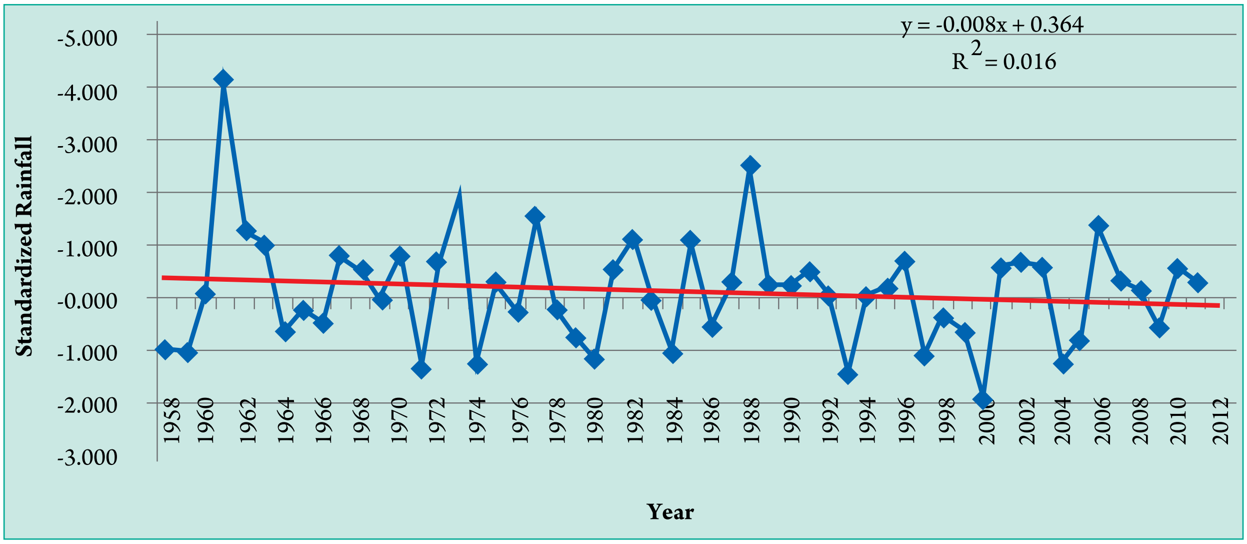


Figure 14.7: Rainfall trends in Kakamega



season and reduction of livestock feed, while higher temperatures are responsible for crop and livestock diseases and pests in areas their prevalence was hitherto unknown. The country has experienced a reduction in the famine cycle from 20 years (1964-1984), to 12 years (1984-1996), to 2 years (2004-2006) and to yearly (2007/2008/2009) (Government of Kenya, 2010). At the same time, drought events are more severe. For example, the impacts of the 2008-2011 drought is estimated at Ksh 968.6 billion (US$ 12.16 billion) and was responsible for an average 2.8 per cent per annum decline in GDP (Government of Kenya, 2012). Drought has the greatest effect in Kenya and is prevalent in Eastern, North Eastern, parts of Rift Valley and Coast regions. Floods seasonally occur along the flood plains in Budalangi, Nyando, Rachuonyo and Tana River, while landslides occur during the long rains season running from March to May especially in Murang'a County, parts of Kiambu, Nyeri, Kirinyaga, Nyandarua and other parts of the Mount Kenya region.

Figure 14.8: Trends in temperature changes in Garissa, 1982-2012

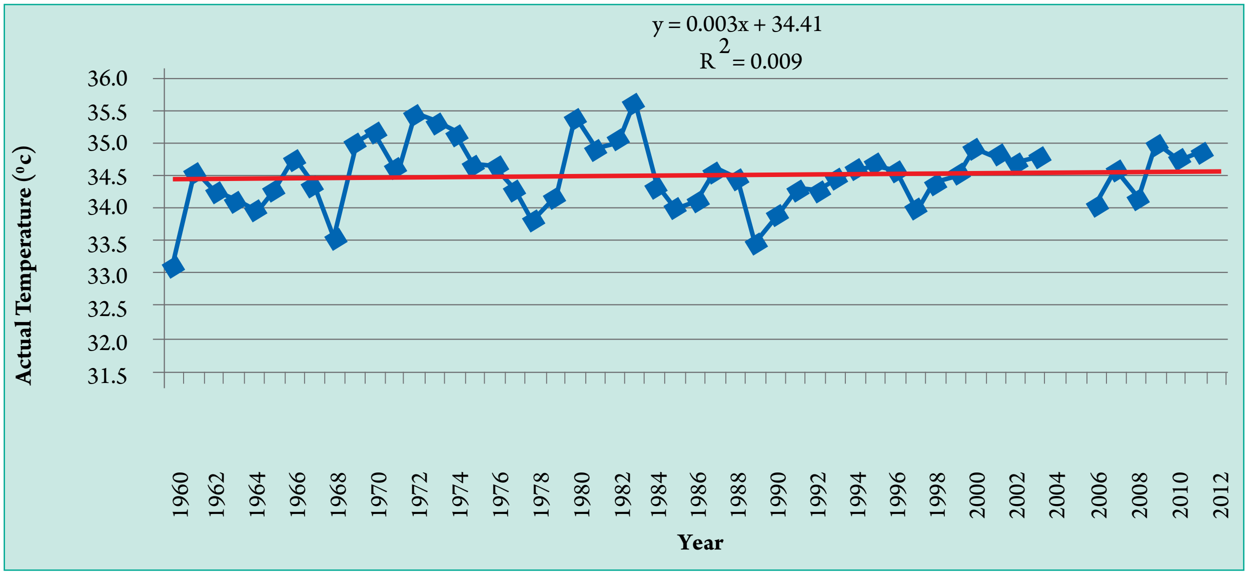
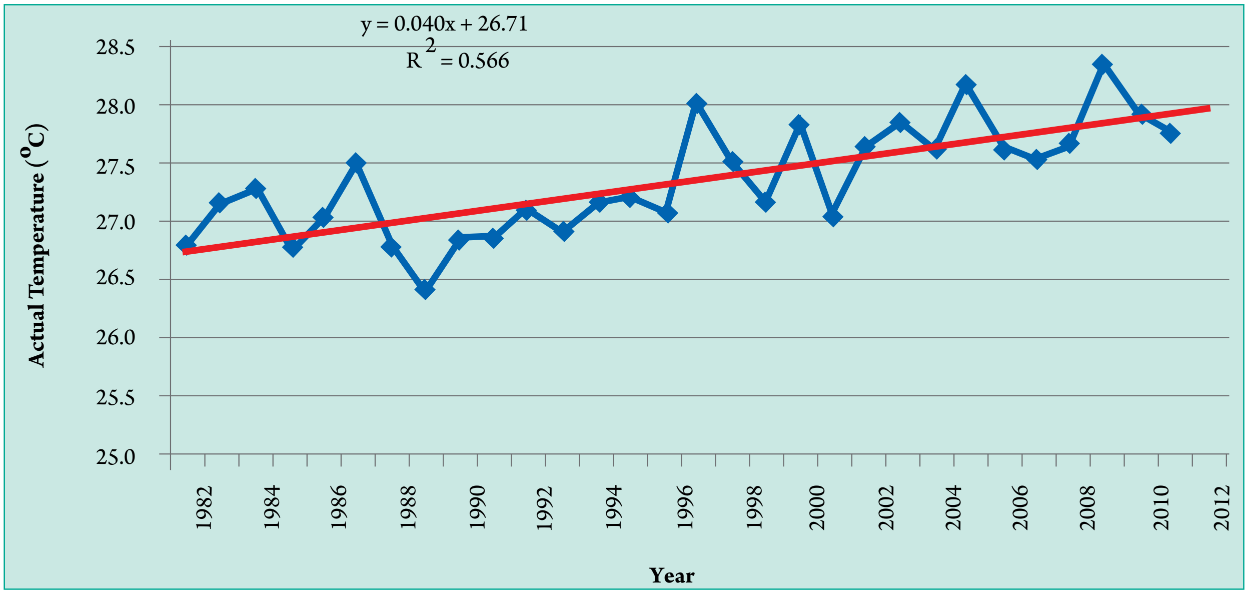


Figure 14.9: Trends in temperature changes in Kakamega, 1982-2012



Climate variability is most dramatic in the months of March, April and May and slowest in June, July, August and September. The Arid and Semi-Arid Lands (ASALs) are worst affected, having recorded higher increases than the rest of the country. These areas have also experienced more frequent and severe droughts, which have negatively impacted the pastoral way of living. ASALs have fragile environments, and climate changes exacerbate other stresses affecting these areas, such as population rise and land demarcation and land use change.

The country has variable climatic zones but inadequate weather stations to cover all zones. In 2012, only 33 stations were actually functional, showing a poor network distribution. The rainfall trends show mixed signals, with some locations indicating trends towards wetter conditions but most locations are not showing any significant changes. The annual rainfall shows either neutral or slightly decreasing trends due to a general decline in the long rains season that extends from March to May. The short rains season between October and December, on the other hand, shows a positive trend in some parts of the country. This positive trend is a result of the season extending into January and February in recent years. This is probably because of more frequent El Niño events, coupled with relatively warmer sea surface temperatures over the Western Indian Ocean (along the Coast of East Africa) and relatively cooler than average sea surface temperatures (SSTs) to the east of the Indian Ocean. Rainfall trends for Garissa and Kakamega are shown in Figures 14.6 and 14.7, respectively.

Generally, diurnal temperature ranges have decreased in the inland but increased towards the Coastal region. Trends in temperature changes for Garissa and Kakamega for the period 1982-2012 are shown in Figures 14.8 and 14.9, respectively.

14.4.1 Seasonal Performance

Analysis of seasonal performance is based on the Kenya Meteorological Department (KMD) categorization as shown in Table 14.8. In 2011, the March-May seasonal rainfall almost ceased in most parts of the country. Many parts recorded highly depressed and poorly distributed rainfall. The areas most affected were North Eastern and the Coastal strip, where less than 50 per cent of their seasonal Long-Term Means (LTMs) was received. The rainfall was also characterized by late onset in some parts of the country.

Table 14.8: Rainfall performance categorization

Seasonal Total Amounts Thresholds	Category
Below 50% of the long-term mean (LTM)	Highly depressed
Between 50-75% of LTM	Depressed
Between 75-125% of LTM	Near Normal
Between 125-150% of LTM	Enhanced
More than 150% of LTM	Highly enhanced

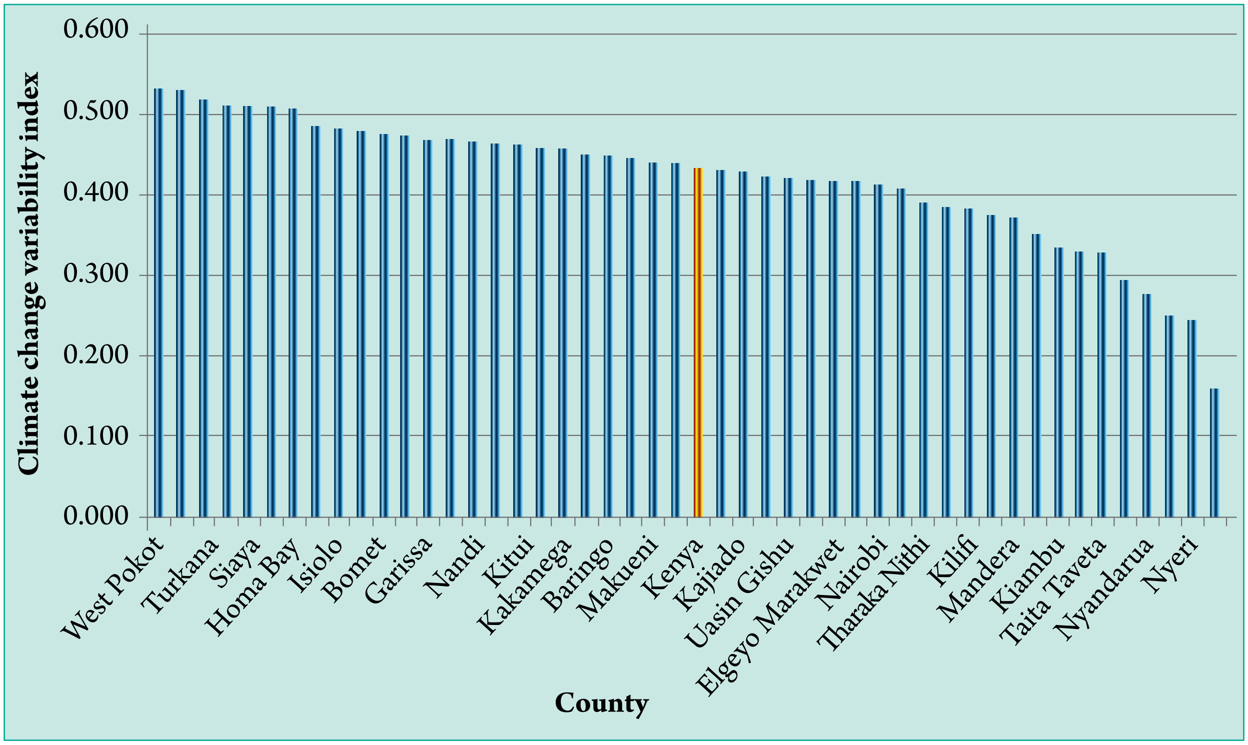
Source: Kenya Meteorological Department – KMD (2012)

Near-normal category (between 75% and 125% of their seasonal LTMs) was received in Kitale, Embu, Machakos, Kisii, Lodwar, Nakuru, Voi, Kericho and Kakamega. This was, however, poorly distributed with a prolonged dry spell in April. In terms of amounts, Kisii recorded the highest rainfall amount of 594.5 mm, representing 87 per cent of the LTM. Kericho, Kakamega, Embu, Kitale, Kisumu, Msabaha, Meru, Thika, Nakuru, Dagoretti Corner and Mtwapa, respectively, recorded 532.4 mm (79%), 530.6 mm (78%), 510.6 mm (90%), 431.1 mm (97%), 347.2 mm (64%), 292.9 mm (55%), 276.4 mm (59%), 274.6 mm (63%), 258.2 mm (84%), 257.0 mm (53%) and 250.3 mm (41%).

The poor rainfall performance affected growth in important sectors of the economy, and constrained climate-dependent livelihoods. Variability in rainfall impacted negatively on agricultural and pastoral activities, with a reverberating effect on the entire economy. Poor rain distribution and prolonged dry spells reduced agricultural production in parts of Kenya such as Trans Nzoia and Uasin Gishu. However, forage and pasture conditions in the pastoral areas of Northern, North Western and North Eastern parts improved slightly during this period. Reduction in forage and water is often responsible for conflicts in pastoral areas. Heavy rainfall in some parts compromised transport through destruction of road networks, while urban areas with poor drainage were heavily affected by flash floods. The resulting costs were often transferred to the road users and reflected in the cost of living.

Although Kenya is generally vulnerable to climate change and variability, regional disparities exist across the counties. Coincidently, vulnerable counties are characterized by high poverty levels

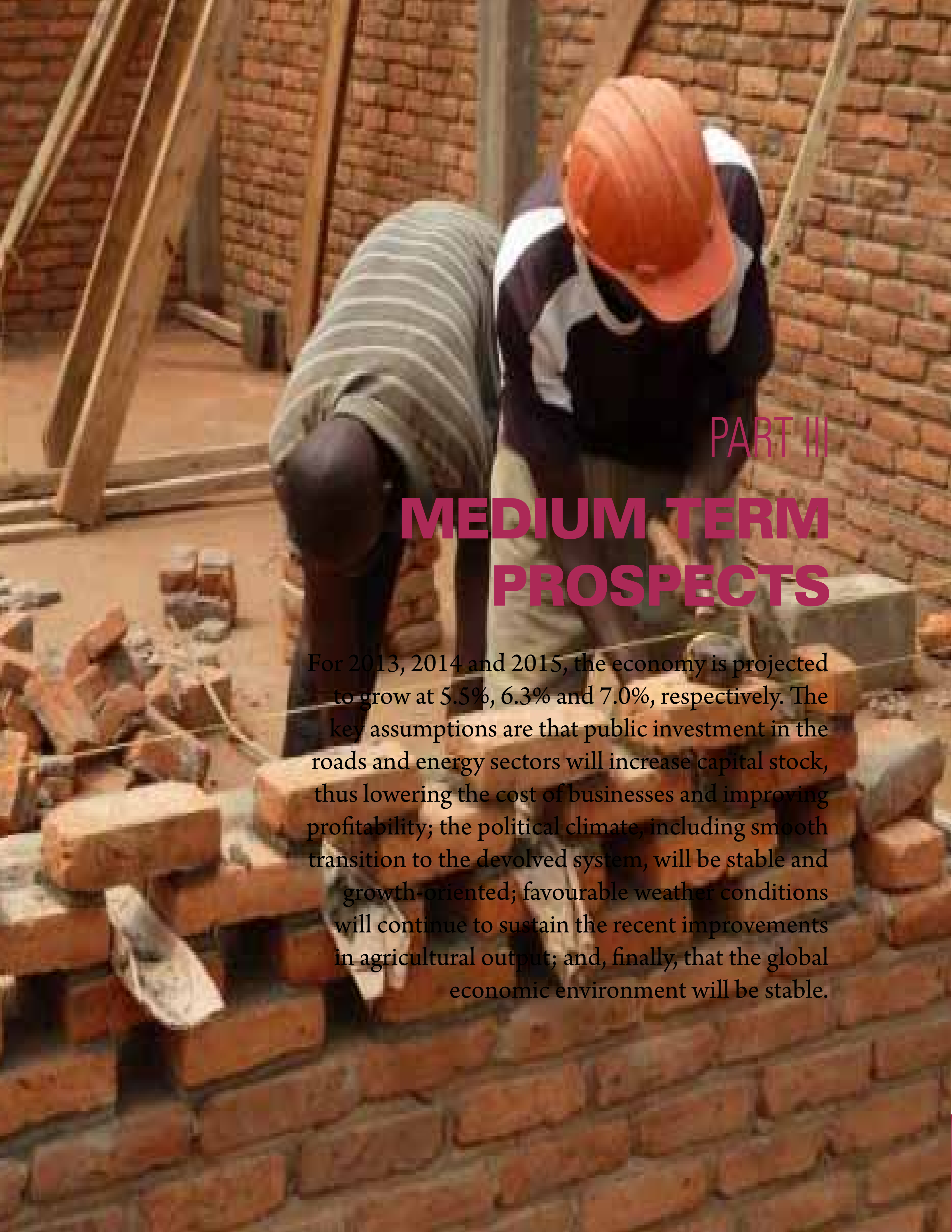
Figure 14.10: Climate Change Vulnerability Index by county



Source: Government of Kenya and UNDP (2013)

and inadequate social-economic capital to support community response measures. Figure 14.9 shows the varying levels of Climate Change Vulnerability Index (CCVI) for the counties as well as the national average.

The top five most vulnerable counties are West Pokot (0.527), Kisumu (0.527), Turkana (0.516), Migori (0.509) and Siaya (0.509), while the least vulnerable are Lamu (0.159), Kirinyaga (0.248), Nyandarua (0.277) and Murang'a (0.293). Twenty four (24) counties have a Climate Change Vulnerability Index greater than the national average, that is 0.432. This suggests that majority of counties will have to confront the challenge of climate change through measures to reduce vulnerability and strengthen adaptive capacity.



PART III

MEDIUM TERM PROSPECTS

For 2013, 2014 and 2015, the economy is projected to grow at 5.5%, 6.3% and 7.0%, respectively. The key assumptions are that public investment in the roads and energy sectors will increase capital stock, thus lowering the cost of businesses and improving profitability; the political climate, including smooth transition to the devolved system, will be stable and growth-oriented; favourable weather conditions will continue to sustain the recent improvements in agricultural output; and, finally, that the global economic environment will be stable.

Chapter 15

Medium Term Prospects

15.1 Recent Macroeconomic Performance

The first two quarters of 2012 registered relatively weak performance in economic growth at 3.4 per cent and 3.3 per cent consecutively. Despite the slow growth in the two quarters, all the sectors posted positive growth rates, thus raising expectations for a positive growth trajectory in the medium term. In the second quarter, fishing, financial intermediation, wholesale and retail, and electricity and quarrying sub-sectors showed improved growth as compared to their performance in the first quarter. However, some sectors had very low growth rates, below 2.0 per cent, and these were agriculture, construction, mining and quarrying, and hotels and restaurants.

The inflation level in 2012 showed a lot of improvement as it came down from a high of 18.3 per cent in January to a low of 3.2 per cent in December 2012. The average for the year was 9.6 per cent. This was a good performance compared to 2011, which registered an average 12-month inflation of 14.0 per cent. The 2011 poor performance was attributed to delayed and lower than expected rainfall, high oil prices, depreciation of the shilling, and the Eurozone crisis.

15.1.1 Economic projections for 2013-2015

For 2013, 2014 and 2015, the economy is projected to grow at 5.3 per cent, 6.3 per cent and 7.0 per cent, respectively. The key assumptions for the medium term economic prospects are: (a) public investment in the roads and energy sectors, which are expected to increase capital stock, thus lowering the cost of businesses and improving profitability; (b) a stable political climate, including smooth transition to the devolved system, which is assumed will be stable and growth-oriented; (c) favourable weather conditions, which will continue to sustain the recent improvements in agricultural output; and (d) stable global economic environment.

Slow uptake of the Public-Private Partnership (PPP) initiative in the implementation of MTP strategies may lead to a slower rate of economic expansion than envisaged in Vision 2030. In addition, weak implementation of the budget can adversely affect growth in the medium term. The economic projections in Table 15.2 reflect the downside risks.

15.1.2 Alternative scenario

An alternative scenario is presented in Table 15.2 under different assumptions, with a more conservative growth rate for the economy due

Table 15.1: Economic projections for 2013-2015

Variable	2009	2010	2011	2012	2013	2014	2015
GDP growth	2.7	5.8	4.4	4.6	5.3	6.3	7.0
Inflation overall	9.0	4.0	14.0	9.6	5.7	5.3	5.2
Private consumption growth	5.0	7.2	2.8	7.0	6.5	7.0	8.0
Private investments growth	4.0	5.0	12.0	7.0	7.0	11.0	12.0
Government consumption growth	3.8	9.2	10.6	8.0	6.0	7.0	11.0
Government investments growth	8.2	5.0	9.0	9.0	8.0	12.0	10.0
Exports of goods and services	-9.3	17.7	6.7	5.0	6.0	7.0	8.0
Imports of goods and services	2.8	6.1	15.6	11.0	10.0	11.0	11.0
Public expenditure as % of GDP	31.0	33.4	33.0	31.8	30.4	29.6	28.8

Source: KIPPRA estimates using the KIPPRA-Treasury Macro Model (KTMM)

to unforeseen circumstances. In case external shocks arise, it is estimated that the country would experience surges in inflation and the weakening of the exchange rate. This would have effects on the growth rate, exports and imports, and interest rates would remain relatively high.

15.2 Manufacturing Sector Medium Term Prospects

In 2012, the manufacturing sector growth declined to 3.1 per cent from 3.4 per cent in 2011, mainly due to high cost of production, competition from cheap imports and drought during the first quarter of 2012 that adversely affected the food sub-sector. At least 30 per cent of manufacturing sector value added comes from food, beverage and tobacco manufacture. Therefore, the sector's performance, in addition to external shocks such as oil prices, is prone to erratic weather patterns.

The turnaround of the sector in the medium term depends on timely implementation of Vision 2030 manufacturing sector flagship projects. A key challenge, in addition to drought incidences and costs of production, is the structure of the sector, which has large concentration in food manufacturing and less diversification into high-value manufacturing such as chemicals and electronics.

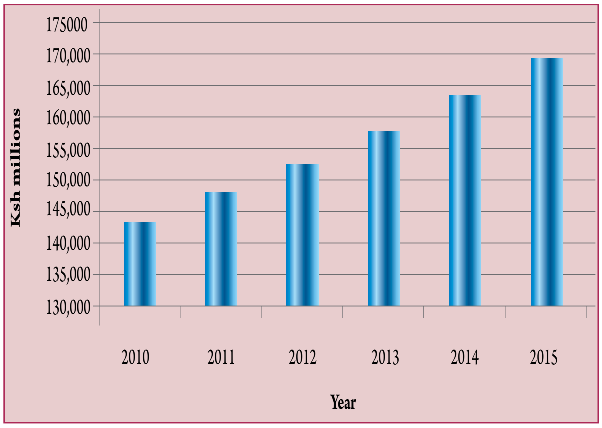
In analyzing the sector's medium term prospects, past time-series process of the manufacturing output through autoregressive modelling, AR (1),

Table 15.2: Alternative scenario–Selected economic indicators

Variable	2009	2010	2011	2012	2013	2014	2015
GDP growth	2.7	5.8	4.4	4.6	5.3	5.8	6.3
Inflation overall	9.0	4.0	14.0	9.6	6.0	6.2	8.6
Private consumption growth	5.0	7.2	2.8	7.0	5.0	6.0	6.0
Private investments growth	4.0	5.0	12.0	7.0	5.0	11.0	12.0
Government consumption growth	3.8	9.2	10.6	8.0	6.0	7.0	7.0
Government investments growth	8.2	5.0	9.0	9.0	12.0	14.0	13.0
Exports of goods and services	-9.3	17.7	6.7	5.0	5.3	7.0	7.0
Imports of goods and services	2.8	6.1	15.6	11.0	10.0	11.0	11.0
Public expenditure as % of GDP	31.0	33.4	33.0	31.8	30.3	29.6	28.8

Source: KIPPRA estimates using the KIPPRA-Treasury Macro Model (KTMM) the analysis shows that manufacturing sector growth will marginally increase from 3.1 per cent in 2012 and grow at an average of 3.5 per cent during 2013-2015. Figure 15.1 shows the forecasted upward trend in manufacturing output at 2001 constant prices. However, through the implementation of MTP policies under an improved economic environment, the manufacturing sector would grow relatively faster.

Figure 15.1: Manufacturing value added at 2001 constant prices (Ksh millions)



Source: Kenya National Bureau of Statistics (Various), Economic Surveys

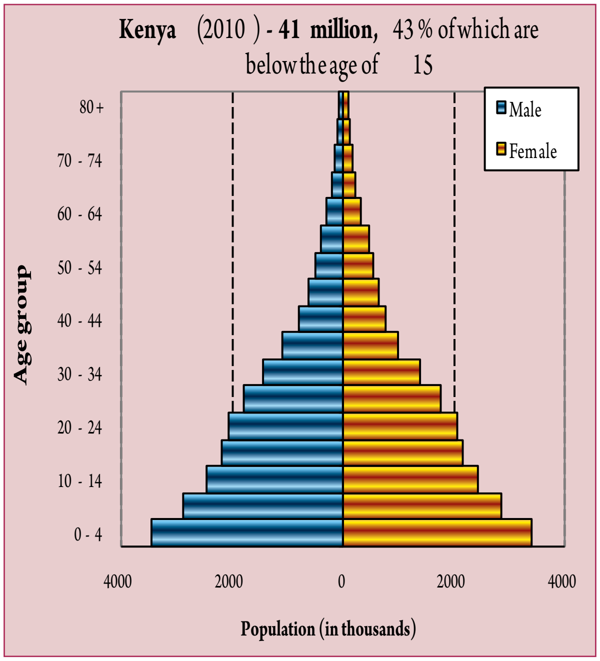
15.3 Population Projections

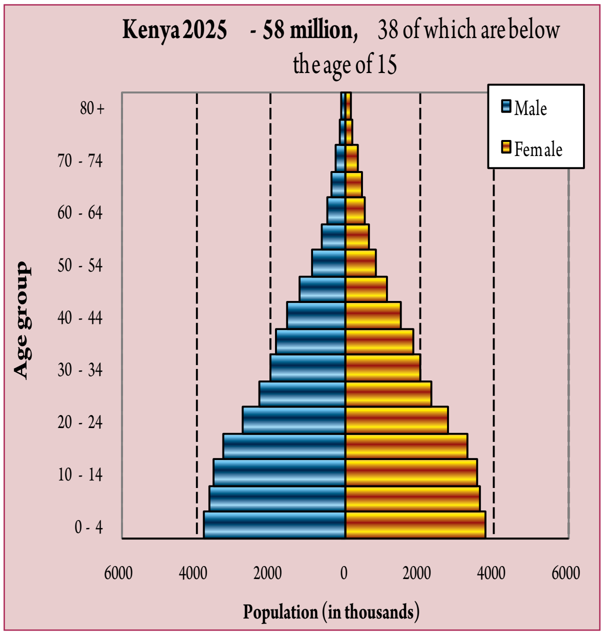
Kenya's population is projected to reach 56.6 million by 2020, 65.9 million by 2030 and 85 million by 2050 as presented in Table 15.3 and Figure 15.2. Consequently, as the country moves forward to attaining Vision 2030 goals, it will be important to consider the implications of the population growth, including sustainable financing and provision of socio-economic services.

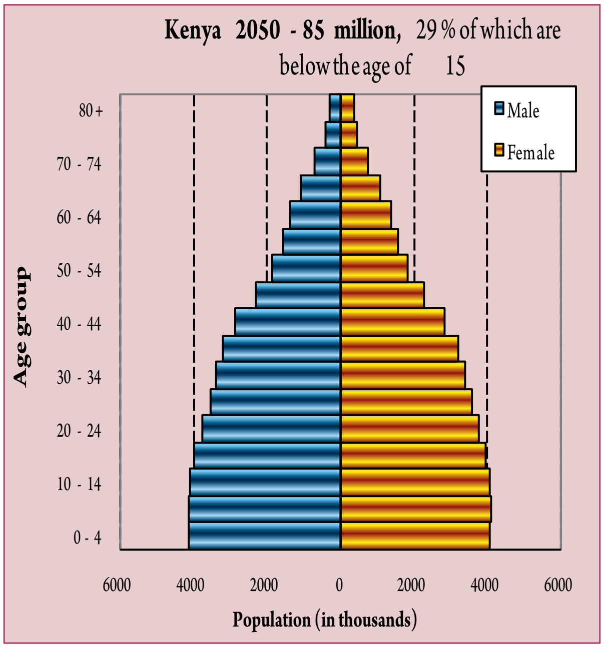
Table 15.3: Population and the labour market

Year	Population projections
2009	38.6*
2010	40.5
2011	41.6
2020	56.6
2030	65.9
2050	85.0

Figure 15.2: Population projections





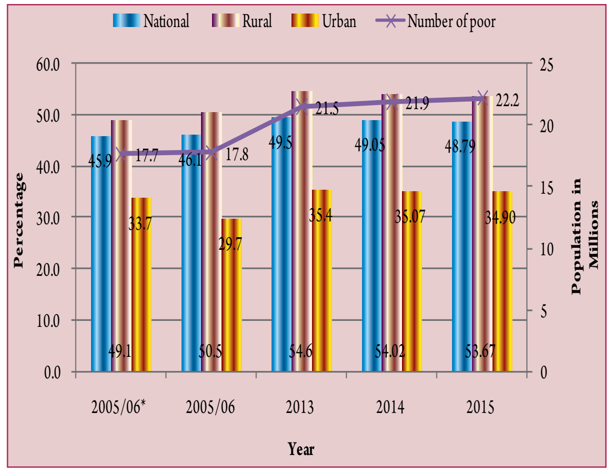


15.4 Poverty Projections and Medium Term Prospects

The KIHBS 2005/06, which is the most recent household survey data, is used in a poverty projection model with coefficients borrowed from a study by Ali and Thorbecke (2000) to arrive at poverty projections. The base data, that is KIHBS 2005/06, annual economic growth rates obtained from the KTMM and inequality measures (obtained from the poverty report for 2005/06) are also used to determine poverty projections for 2013, 2014 and 2015. Figure 15.3 compares actual poverty rates for 2005/06 and projected poverty rates using the poverty projection model. Accordingly, the national absolute poverty is estimated at 49.50 per cent, 49.05 per cent and 48.79 per cent in 2013, 2014 and 2015, respectively.

The results show that poverty is highest in rural areas, with about 55 per cent of the rural population estimated to be living in absolute poverty in 2013, and this is projected to decline marginally over the next two years under the "business as usual" scenario. In urban areas, poverty is estimated at about 35 per cent over the years. While it is projected that poverty would decline slightly, the number of people living in poverty is projected to rise from 21.5 million in 2013 to 22.2 million in 2015.

Figure 15.3: Poverty headcount and the number of the poor

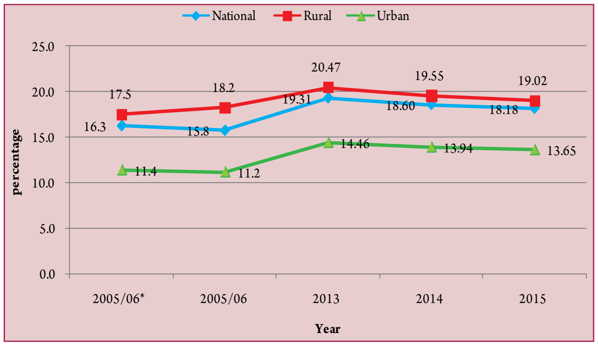


Note: *Actual poverty rates from 2005/06 survey data
Source: KIPPRA Poverty Projection Model

The measures of poverty depth reveal that poverty is indeed severe in rural areas, though the trend seems to decline over the years. The average income of the rural poor is about 20 per cent below the poverty line. In order to reduce this gap, there is need for a deliberate policy that would increase the average incomes of the poor. Although the urban poor live below the poverty line, their incomes are only about 14 per cent below the poverty line. This means that it would take fewer resources to reduce urban poverty compared to rural poverty. The degree of inequality between the poor is high at the national level.

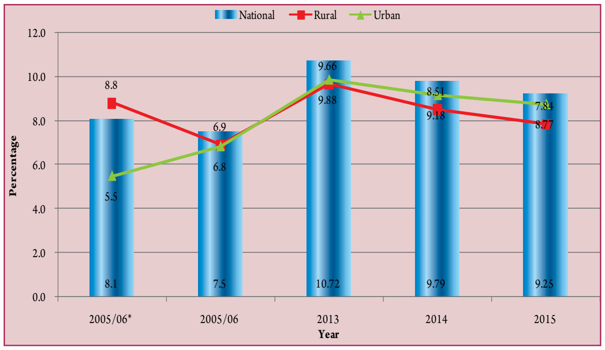
Despite the remarkable achievements in Kenya over the last 10 years, the weak link between economic growth and poverty reduction depict lack of inclusiveness of Kenya's growth performance. Promoting inclusiveness in all its facets will ensure that the benefits of growth reach more people, especially the poorest, thereby aiding poverty reduction. Thus, focusing on a strategy that advocates for creation of long-term productive employment rather than income redistribution per se, and emphasizing equity and equality of opportunities, would especially enhance inclusiveness, thereby accelerating poverty alleviation.

Figure 15.4: Poverty depth



Source: Authors' projections

Figure 15.5: Poverty severity



Source: Authors' projections

15.5 Education Sector Projections and Prospects

According to the 2009 Population Census, the school-age population for Early Childhood Development and Education (ECDE) schooling (4-5 years) was estimated at 2.4 million. This is expected to rise to 2.8 million in 2012 and 3.08 million by 2016, assuming the population growth rate of 2.67 per cent across all school-age population groups. Primary school-age population (6-13 years) was 8.5 million in 2009 and is projected to rise to 9.3 million in the year 2012 and to 10.99 million by the year 2016. At secondary school level, the school-age population (14-17 years) is projected to increase from 3.01 million in 2009 to 3.3 million in 2012 and to 3.7 million by 2016. The population aged 18-25 years was projected to increase from 6.1 million in 2009 to 6.2 million in 2012 and 6.3 million by 2015.

Table 15.4 shows enrolment projections at three levels of schooling for the period 2012 to 2016. At ECDE level, total enrolment will increase from 2.0 million in 2012 to 2.5 million in 2016. At primary school level, the corresponding figures are 9.7 million and 11.4 million for 2012 and 2016, respectively. At secondary school level, enrolments were projected at 2.1 million students in 2012 and 2.4 million in 2016. Table 15.4 also shows corresponding enrolments in public institutions in percentages.

Thus, the country should be projecting to provide basic education for about 15.8 million children (ECDE, primary and secondary school education) in 2015 and 16.1 million youth by 2016; and tertiary education and skills development programmes for about 6.3 million youth by 2015 and 6.5 million in 2016.

These prospects have various implications for resource requirements for both the central and county governments. As an example, based on the public ECDE enrolment projection of three (3) million pupils by 2015, pupil teacher ratio of 25:1 and pupil class ratio of 30:1, a total of 62,400 teachers and 52,000 public ECDE classrooms will be required by 2014. Currently, ECDE centres are financed by local communities, and in some cases local authorities, with majority of pre-school learning taking place in church compounds, social halls and private premises. Since the provision of pre-primary education is the responsibility of county governments, priority intervention areas for this sub-sector in the short term should include improving the quality of infrastructure, and provision of learning materials and human resources.

Total primary school enrolment is expected to grow at a stable rate during the period from 9.7 million in 2012 to 11.4 million (92.78% public) by 2016.

Table 15.4: Education projections 2012 to 2016 (millions)

	2012			2013			2014			2015			2016		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
Schoolage population 4-5 years	1.4	1.4	2.8	1.5	1.4	2.9	1.5	1.5	3.0	1.5	1.5	3.0	1.5	1.5	3.1
6-13 years	4.7	4.6	9.3	4.9	4.8	9.7	5.1	5.1	10.2	5.4	5.3	10.7	5.5	5.4	11.0
14-17 years	1.6	1.6	3.3	1.7	1.7	3.4	1.7	1.7	3.5	1.8	1.8	3.6	1.8	1.8	3.7
18-25 years	3.1	3.1	6.2	3.1	3.1	6.2	3.1	3.1	6.3	3.1	3.1	6.3	3.2	3.2	6.5
Total Enrolment	7.1	6.7	13.8	7.4	7.0	14.0	7.7	7.3	15.0	8.2	7.5	15.7	8.4	7.7	16.1
ECDE	1.0	1.0	2.0	1.0	1.0	2.1	1.1	1.0	2.1	1.3	1.0	2.4	1.3	1.0	2.5
Primary	5.0	4.7	9.7	5.3	4.9	10.2	5.5	5.1	10.6	5.7	5.3	11.1	5.9	5.5	11.4
Secondary	1.1	1.1	2.1	1.1	1.1	2.2	1.1	1.1	2.3	1.2	1.2	2.3	1.2	1.2	2.4
Public Enrolment															
ECDE	0.8	0.7	1.5	0.8	0.7	1.5	0.8	0.8	1.6	1.1	0.8	1.8	1.1	0.8	1.9
Primary	4.7	4.3	9.0	4.9	4.5	9.4	5.1	4.7	9.8	5.3	5.0	10.3	5.5	5.1	10.6
Secondary	1.0	1.0	2.0	1.0	1.0	2.1	1.1	1.0	2.1	1.1	1.1	2.2	1.1	1.1	2.2
% in Public schools															
ECDE	71.4	71.3	71.3	71.4	71.2	71.3	71.4	71.2	71.3	77.0	71.2	74.5	82.3	76.0	76.3
Primary	92.4	92.4	92.4	92.5	92.6	92.5	92.7	92.7	92.7	92.8	92.9	92.8	92.7	92.9	92.8
Secondary	93.7	92.7	93.2	93.8	92.8	93.3	93.9	92.9	93.4	93.9	92.9	93.4	94.0	93.0	93.5
Projected GER (%)															
ECDE	72.9	72.1	72.5	73.6	72.8	73.2	74.4	73.6	74.0	90.4	72.0	81.4	86.7	66.7	80.0
Primary	108.3	101.8	105.1	107.4	100.8	104.2	106.9	100.6	103.8	106.5	100.5	103.5	106.3	100.8	103.6
Secondary	62.5	63.4	62.9	63.7	64.0	63.8	63.8	64.0	63.9	63.9	64.1	64.0	65.0	63.9	64.4

Source: Education Simulation Model (2012), 2009 Population Census

Assuming a public primary pupil teacher ratio and class size norms of 40:1 and 50:1, respectively, a total of 245,750 teachers and 196,600 classrooms will be required by the year 2014.

Aggregate secondary school enrolment is expected to continue rising due to the recent policy reforms in the sector. Some of the effects of the reforms include increase in primary school enrolment due to free primary school education and envisaged increase in transition to secondary school education; expansion of secondary school education infrastructure through the Constituency Development Fund; and implementation of the Free Day Secondary Education funding towards provision of learning materials and operational costs for public secondary schools across the country. Public secondary school enrolment is expected to increase from 2.1 million in 2012 to 2.4 million by 2016 (93.5% in public secondary schools). Assuming a public secondary pupil teacher ratio and class size norms of 35:1 and 45:1 respectively, a total of 60,285 teachers and 46,889 classrooms will be required at this level of schooling by the year 2014.

15.6 Tourism

15.6.1 Forecast assumptions

According to UNWTO forecasts early in the year, international tourism would increase by 3-4 per cent for the full year 2012. While the pace of growth is slowing down somewhat, international overnight visitors remain firmly on track to reach one billion arrivals expected in 2013. The continued strength of tourism is particularly important in the context of the current economic uncertainty, and reinforces the need for increased political commitment and support to the sector. The capacity of tourism to drive growth and create jobs needs to be accompanied by strong supportive public policies. Tourism has been identified by the G20 as one of the sectors that can spur the global economic recovery (WTO, 2012).

The following medium term forecasts for the tourism sector (in terms of tourist arrivals and earnings) are based on a number of working assumptions:

- Decline in arrivals is expected from Europe due to the ongoing Eurozone crisis.
- Anticipated growth in arrivals from Russia, China, the UAE, India, Oceania (Australia and New Zealand) and other emerging markets.
- Owing to terrorism threats on Kenya that persisted throughout 2012 resulting in weak performance in inbound tourist arrivals in January-December 2012, growth of around 4 per cent over the previous year is assumed, similar to UNWTO forecasts.
- The peaceful general elections in March 2013 and stable macroeconomic conditions. This, coupled with recovery in European markets will lead to higher arrivals and receipts in January-December 2013.

15.6.2 Tourist arrivals and earnings

Given the above assumptions, we envisage 4 per cent growth in 2013, in both arrivals and receipts over the previous year, followed by a rebound in 2014-2015, with arrivals growing at 11.9 per cent and receipts at 16.9 per cent annually. In this regard, arrivals and receipts for 2013 are projected to close at 1.85 million and Ksh 99.86 billion, respectively (Table 15.5).

15.6.3 Major source markets

Going forward, we envisage a better outlook compared to 2012, with a rebound in tourist arrivals from traditional markets of the UK, Germany, Italy, France, USA, Canada and Scandinavian countries, and higher growth in arrivals from emerging tourist source markets such as China, India, Russia, Australia and New Zealand.

Table 15.5: Projected international tourist arrivals, earnings and value added in hotels and restaurants

	Actual				Projected			
	2009	2010	2011	2012	Mean (2009-2012)	2013*	2014*	2015*
Tourist Arrivals ('000)	1,490.00	1,609.10	1,822.90	1,710.80	1,675.69	1,852.00	2,071.83	2,317.76
Growth (%)	23.80	7.90	18.10	-2.31	11.87	4.00	11.87	11.87
Tourist Receipts (Ksh billion)	62.50	73.70	98.00	96.02	82.56	99.86	116.71	136.40
Growth (%)	18.60	17.90	33.00	-2.02	16.87	4.00	16.87	16.87

Source: Authors' calculations from Kenya National Bureau of Statistics, Economic Surveys (2007-2012), and Ministry of Tourism data

A number of international airlines from emerging source markets started regular flights into Kenya in 2012, including Novair (Sweden), Pegas Touristik (Russia), Air Korea, Southern China Airlines and Jordanian Airlines (Ministry of Tourism, 2012a). In April 2012, Etihad Airways started a daily service from Nairobi to Abu Dhabi, marking its entry into East Africa. In May 2012, Kenya Airways (KQ) started scheduled flights to New Delhi, India, making it KQ's 57th destination. This followed the launch of direct flights to Jeddah, Saudi Arabia in October 2011. KQ also has scheduled flights to Mumbai, India.

These intra-Africa flights, which target business travellers, are informed by growing economic linkages between Africa, the Middle East and Asia. India is a significant trade and tourist source market to Kenya: trade between the two countries stands at about US$ 2.5 billion annually. Kenya Airways currently flies to 58 destinations; 46 of them being African destinations. Through the SkyTeam Alliance, Kenya Airways takes passengers to over 926 destinations in 173 countries and 490 lounges globally. SkyTeam partner airline passengers can access the former's expansive destination network in Africa through Kenya Airways. In this regard, more arrivals are expected from India (and Asia in general).

There are great prospects for growth in arrivals by business travellers from the EAC countries (notably Tanzania and Uganda) due to the increased cross-border trade. The EAC member countries have harmonized their immigration procedures, making it easier for citizens to travel between member countries. Once the EAC becomes an economic union, both trade and tourism prospects will be enhanced further.

15.6.4 Meetings, Incentives Travel, Conferences and Exhibitions (MICE)

In 2012, inbound visitors attending MICE events comprised 3 per cent of all tourist arrivals. In September 2012, the Bench Events and the Kenya Tourist Development Corporation (KTDC) hosted the Africa Hotel Investment Forum (AHIF) in Nairobi at the Intercontinental Hotel. Over 400 global and regional delegates from 35 countries came together to discuss opportunities, best practice and issues facing investors. Numerous deals were signed and more projects were launched and, as an outcome, at least 5 international hotel groups are set to build hospitality facilities in Kenya over the next 5 years.

The MICE market has potential to contribute over 14 per cent of annual tourism to Kenya and is an area for significant growth opportunities. In order to support this drive and to boost country meetings in key and emerging markets, Kenya has formed a national MICE Committee and the government is exploring, through feasibility studies, the prospects of developing additional conventional facilities through public-private partnership programmes. Given that most of the counties lack modern convention facilities, there is great opportunity and potential for investing in MICE tourism facilities at the county level.

15.6.5 Accommodation

Since tourism attractions have placed the country among the top-ranking tourism destinations, huge investments have been made in the hospitality sector in the last one decade. For a long time, the luxury hospitality market has been dominated by big players such as the Holiday Inn, Intercontinental, the Nairobi Hilton, the Norfolk, the Nairobi Serena, Safari Park, Panari, the Stanley and Laico Regency.

However, new top-notch international hotel brands such as Best Western (to start operations in mid-2013), Radisson Blu (part of the Rezidor Group), Emaar, Kempinski, Marriot, Park Inn and Three Cities branded hotels are all under construction, and a 200-room Lansmore Hotel, Lonrho's new brand, is on the drawing board. A luxury boutique hotel, Hemingways Nairobi, is set to bring a touch of glamour in the peaceful suburb of Karen when it opens. The all-suite plantation-style building, which overlooks the Ngong Hills, will feature a wellness centre, swimming pool, gym and spa. These developments by global brands signal greater prospects for the tourism sector in that the country will attract super-rich tourists from around the world, who have a taste for high-class hospitality.

This comes at a time when Kenya is positioning herself as the travel, financial as well as the business hub in the East and Central African region, in addition to huge investments in transport and communication infrastructure. Although Kenya does not feature in the top ten African countries with the highest number of upcoming hotels and total room numbers, it is ranked position 9 in terms of construction status of planned new hotels, which are currently 74 per cent complete. Although this is expected to raise the bar in terms of service delivery in the hospitality industry, it will not necessarily translate to cheaper rates.

The industry is developing an additional 3,000 beds within the medium term and a further development of 65,000 beds by 2030 in order to meet the growing demand for the Kenyan tourism product. Despite the above developments in the hospitality industry, most counties lack tourist-class accommodation facilities, hence once the devolved county governments are established, this should be considered a top investment priority (Box 15.1).

Box 15.1: Shortage of hotel rooms frustrates Kisumu County

Following the recent upgrading of Kisumu airport to international status, there is need to provide more bed capacity to meet demand from the growing number of visitors in the Western Kenya tourism circuit. The Ministry of Tourism endeavours to work closely with hoteliers and restaurateurs in order to promote both domestic and international tourism.

Kisumu has more potential given its strategic nature in the East African Community. Kisumu City, at the moment, has a bed capacity of about 1,000 in classified hotels, which cannot cope with future demand. The city has no five-star hotel to accommodate high-profile guests (such as Presidents from the region), forcing the government to hire private residences for them.

Some of the major hotels in Kisumu are the Imperial Hotel (the only three-star facility), Kisumu Hotel (owned by Maseno University), Milimani Resort and the Great Lakes Hotel. Others, which provide middle-level services, include Hill View Hotel in the outskirts of the town, and a number of guesthouses, which have been mushrooming in Kisumu and its environs.

According to the Tourism and Heritage Committee, Kisumu Municipal Council, there is need for more police patrols around hotels and restaurants, since reinforced security would attract more visitors into the city and region.

Adapted from: http://www.ktdc.co.ke/news-updates/62-shortage-of-hotel-rooms-frustrates-kisumu, accessed on 02/11/2012

15.7 Water

The environment, water and sanitation sector is a key pillar of Vision 2030. Implementation of the first MTP was aimed at attaining sustainable development and management through targeted activities, which include flagship projects.

The performance of the water sub-sector impacts positively on all sectors of the economy, including energy production, tourism, agricultural and industrial development, health and sanitation, security, employment creation and poverty reduction.

The vision of the sector is to attain sustainable access to adequate water in a clean and secure environment for sustainable national development. This is to be achieved through conservation, management and protection of the environment; development of water storage; improving access to water and sewerage services; development of irrigation, drainage and reclamation of wastelands; as well as capacity building for water institutions.

The priorities of the sector are outlined in the Medium Term Expenditure Framework (MTEF) of 2013/14-2015/16. The prioritized programmes were based on issues emanating from county consultations carried out in October/November 2011 during the budget preparation process and given in Table 15.6. This is as per the constitutional requirement for public participation and inclusion in resource sharing and guided by the Kenya Vision 2030 objectives.

Table 15.6: Water sector priorities, 2013-2016

16 Focus	17 Programme	18 Projects/ Activities	19 Expected Status
Urban water supply	Medium-size towns urban water supplies infrastructure expanded	30 urban water supplies infrastructure expanded	Increased access to adequate and reliable water supply
Rural water supply	Water sanitation projects constructed	450 water and sanitation projects constructed	
	Boreholes drilled and equipped	540 boreholes drilled and equipped	
Sewerage services	Sewerage schemes rehabilitated	60 sewerage schemes rehabilitated	Increased access to sanitation services
Water policy and management	Complete policy documents including the Water Policy, Irrigation Policy, Water Storage Policy, Land Reclamation Policy, Water Act 2012, Irrigation Act and National Water Master Plan	The Water Policy, Irrigation Policy, Water Storage Policy, Land Reclamation Policy developed, Water Act 2012 legislated, Irrigation Act legislated and National Water Master Plan completed	Well coordinated water and irrigation services

Source: Government of Kenya (2012), MTEF 2013/14-2015/16

The projects prioritized in Table 15.6 are the same that were initially identified as flagship projects in the year 2008. They were to be implemented during the period from 2008-2012 during the first implementation phase of Vision 2030. Whereas there have been various projects carried out through this period, the large dam projects were not successfully implemented. The number initially targeted has also been reduced from 24 to only 2. It has been reported in various performance review documents of the Ministry of Water and Irrigation that the programme was hindered by issues of insufficient funding, technical capacity as well as poor stakeholder support.

15.8 Roads

According to the MTEF 2013/14-2015/16, road development, maintenance and management has been ranked as a top priority programme. The objectives set out in the MTEF for the roads sub-sector include expansion, rehabilitation and maintenance of the road network in addition to building capacity for road construction. The aim is to achieve efficient and economical road transport. The programmes, sub-programmes, expected outcomes, outputs and key performance indicators (KPI) for the sector are given in Table 15.7.

Table 15.7: Road sub-sector programmes and sub-programmes 2013/14-2015/16

Programme/ Sub-Programme	Key Outputs	Key Performance Indicators (KPIs)
Construction of roads , missing links and bridges	1,480 km of new roads, 45 km of missing links and 15 bridges constructed	No. of km of new roads, missing links and no. of bridges constructed
Rehabilitation of roads	1,900 km rehabilitated	No. of km of roads rehabilitated
Periodic maintenance of roads	3,600 km maintained	No. of km of roads maintained
Routine maintenance of roads	246,000 km of roads routinely maintained	No. of km of roads maintained routinely
Design of roads and bridges	10 designed	No. of designs successfully completed
Roads 2000	4,000 km and 3,000 jobs created	No. of km of roads maintained and no. of jobs created
Rehabilitation and maintenance of national park roads	3,550 km of roads maintained and rehabilitated	No. of kilometres rehabilitated and maintained
Capacity building for roads and buildings	450 students trained at KIHBT	No. of graduates

Source: Government of Kenya (2012), MTEF 2013/14-2015/16

Table 15.8 shows the recurrent and development resource requirements for the period 2013/14-2015/16. It is estimated that Ksh 33 billion will be required for recurrent expenditure and Ksh 97 billion for development spending in the roads sub-sector for the financial year 2014/15. A total of Ksh 110 billion will be required to finance both recurrent and development spending within the roads sub-sector for the 2015/16 financial year. The estimates further reveal that approximately 70 per cent of the spending will be allocated to development activities under the various sub-programmes.

According to the Kenya Roads Board Fund (KRBF), the collections from the RMLF in 2013/14 will amount to Ksh 25.6 billion, while collections from transit tolls are expected to increase to Ksh 450 million. The projections further estimate Ksh 100 million in collections from agricultural cess and other sources.

Table 15.8: Roads sub-sector resource requirements (Ksh millions)

Resource Requirements Category	Estimates 2012/13	Requirement 2013/14	Allocation 2013/14	Projected Estimates	
				2014/15	2015/16
Recurrent	28,378	31,035	28,742	33,705	34,000
Development	97,027	99,416	99,206	97,585	76,000
Total	125,405	130,451	127,948	131,290	110,000

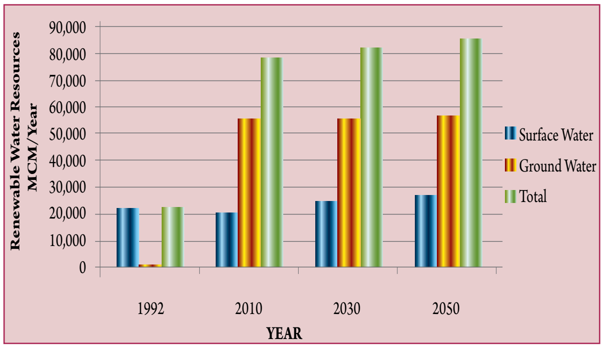
Source: MTEF 2013/14-2015/16

15.9 Environment Prospects (2013-2015)

15.9.1 Water and climate change

A new Water Master Plan is being developed by the Ministry of Water and Irrigation (MWI) with support from JICA. Preliminary results show that the country has more water than initially thought. In 2010, for example, the country had total renewable water resources of 76,610 MCM/year or 1,965 m^3 per capita (MWI and JICA, 2012). The increase is attributed to a change in the methodology of assessing ground water resources that captures the entire ground water recharge as opposed to the approach used in 1992 that only considered total actual ground water abstractions. This means that Kenya has huge water resources comparable to her neighbouring countries; Uganda - 1,913 m^3 and Tanzania – 2,083 m^3, but much lower than Malaysia – 20,098 m^3 (FAO, 2012). Figure 15.6 shows trends and projections in water resources availability for the period 1992-2050.

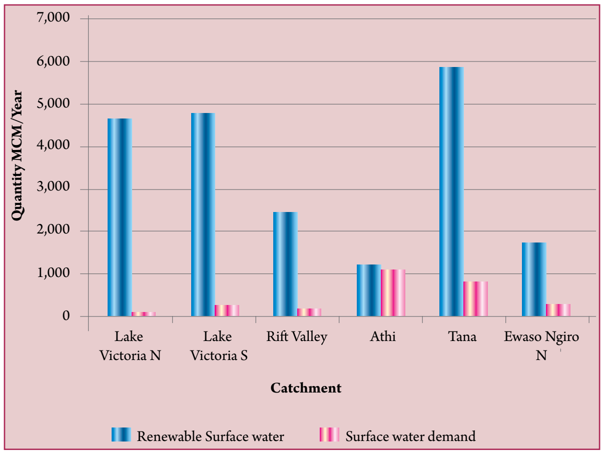
Figure 15.6: Trends and projections in water resources availability in Kenya, 1992-2050



Source: MWI and JICA (2012), based on preliminary results of the National Water Master Plan 2030

Although only 5 per cent of ground water resources can be extracted, the quantity of ground water resources is generally more than surface water. This revelation will have dramatic effect on the way water is managed in the country. Yet, the distribution across the six catchments remains skewed; Lake Victoria North (7%), Lake Victoria South (9%), Rift Valley (27%), Athi (8%), Tana (23%) and Ewaso Ng'iro North (26%). Uneven distribution vis-à-vis demand presents one of the biggest challenges in water resource management. As shown in Figure 15.7, Athi River is already under stress as demand equals available resources. This is because of high water demand in the cities of Nairobi and Mombasa, both located in the catchment.

Figure 15.7: Water balance in the catchments



Source: MWI and JICA (2012), based on preliminary results of the National Water Master Plan

Even in catchments where demand is currently lower than available resources, there are sub-catchments such as Lake Naivasha that are experiencing very high water demand due to irrigation activities. The Kenya Vision 2030 seeks to expand irrigable land by 21,000 hectares in 5 years. This calls for efforts towards increasing the country's overall capacity to manage water resources through storage facilities. Demands from domestic, livestock and industrial activities are also expected to rise in tandem with population growth, as well as implementation of Vision 2030 flagship projects.

The past decade has witnessed a steady rise in water demand. Between 1990 and 2010, total annual demand increased by 181 per cent from 2,073 million m^3 to 5,817 million m^3. Increasing water demand is driven by irrigation, domestic and industrial water use. Demand for livestock and inland fisheries also contributed to the rise, although to a lesser degree. Future demand will result from irrigation and will be greatest in Tana and Ewaso Ng'iro catchments. Generally, water resource prospects for 2017 are contingent on effective rehabilitation of the country's water towers and successful operationalization of policies at sub-catchment level. Finally, the results of the National Water Master Plan 2030 will inform investment decisions on water resource management in the coming years.

The problem of water availability is exacerbated by climate change and variability. Floods and droughts of varying magnitudes and other disasters such as landslides and water pollution cause significant economic and human losses in fragile environments. The country lacks the capacity to deal with such shocks, and thus efforts should aim at developing the necessary capacity to deal with these disasters.

The Department of Water Resources spearheaded the formulation of the National Water Quality Management Strategy 2012-2016, with the objective of curbing pollution and enhancing monitoring (Government of Kenya, 2012). Full implementation of this strategy is expected to ameliorate the current problem of water quality.

The ministry formulated a Draft National Water Policy, 2012; the National Water Resources Management Strategy, 2010-2016; and the Draft Water Bill, 2012, as instruments for water resource governance. The Constitution has shifted the functions of water services to the county governments, thus necessitating policy review.

The revised Water Act will address management of water resources in a devolved system of government and consolidate the gains made in previous reforms. Great effort will go to strengthening local institutions, addressing data gaps, and finalizing and implementing frameworks on trans-boundary water resources.

PART IV

CREATING AN ENABLING ENVIRONMENT FOR STIMULATING INVESTMENT FOR COMPETITIVE AND SUSTAINABLE COUNTIES

Chapter 16

An Enabling Environment for Stimulating Investment for Competitive and Sustainable Counties

16.1 Introduction

The theme of this Kenya Economic Report 2013 is *creating an enabling environment for stimulating investment for competitive and sustainable counties.* There are three considerations that inform this theme. One, the Constitution and the County Governments Act No. 17 of 2012 envisages that Kenya's development is to be anchored on devolved governance structures comprising 47 county governments. Two, a sound investment environment is pivotal to the achievement of high levels of investment and savings to support high economic growth as envisioned in Vision 2030 and the Medium Term Plan. Public and private investment is critical for growth of county economies. Public investment can promote growth directly and indirectly by providing various public goods such as infrastructure, social services, peace and stability, and also by creating an environment where risks, barriers and costs to private investment are minimized. Three, there are wide disparities in economic prosperity across counties, which partly emanate from differences in development and access to infrastructure and socio-economic services across the country. Moreover, there are various challenges to be overcome, which include: poverty, unemployment, lack of access to social services, infrastructure deficits and weak economic base in some counties, which would benefit from an enabling economic environment.

The various approaches to creating the enabling environment suggests the need for concerted efforts, collaboration and effective coordination between the national and county governments. The first approach emphasizes the need to reduce administrative and regulatory costs of doing business. Thse second approach, which is outlined in the World Development Report 2005 by the World Bank, dubbed 'A Better Investment Climate for Everyone', emphasizes improving the fundamental elements, namely: stability and security, taxation and regulation, finance and infrastructure, and workers and labour markets. The third approach is associated with the World Economic Forum (WEF) and focuses on twelve (12) pillars of competitiveness that are published annually for several countries. These pillars include: institutions, infrastructure, a stable macroeconomic environment, health and primary education, higher education and training, goods market efficiency, financial market development, labour market efficiency, technological readiness, market size, business sophistication and innovation.

Based on these approaches as outlined in Table 16.1, this part of the report analyzes selected key issues that are considered critical in creating an enabling environment for competitive and sustainable counties. Given the current transitions, the need for capable and effective county governments is considered a priority. In this regard, we analyze the Public Financial Management systems considered key to effective management of public resources and service delivery at the county level. In addition, the report explores how county governments can leverage limited capacity through public-private partnerships (PPPs) with businesses, community organizations and knowledge institutions in delivering their mandates, especially with regard to infrastructure, agriculture and tourism. Other important areas discussed are human resource development, land adjudication, investment in county infrastructure (particularly water and roads), creating an enabling environment for micro and small enterprises, development of wholesale and retail trade and investment in natural resources.

Table 16.1: Approaches to creating an enabling environment

World Bank – Doing Business (Administrative and Regulatory Costs of Doing Business)	World Bank – Investment Climate	World Economic Forum – 12 Pillars of Competitiveness
1. Starting a business 2. Dealing with construction permits 3. Registering property 4. Getting credit 5. Protecting investors 6. Paying taxes 7. Trading across borders 8. Enforcing contracts 9. Closing a business	1. Stability and security (peace, security, macroeconomic stability, security of property rights) 2. Regulations and taxes (improving business regulation and taxation) 3. Finance and infrastructure (address inadequacies in finance and infrastructure) 4. Workers and labour markets (fostering a skilled workforce; intervening to benefit all workers)	1. Institutions 2. Infrastructure 3. Macroeconomic environment 4. Health and primary education 5. Higher education and training 6. Goods market efficiency 7. Labour market efficiency 8. Financial market development 9. Technological readiness 10. Market size 11. Higher education and training 12. Business sophistication 13. Innovation

16.2 County Level Public Financial Management Systems

The Constitution of Kenya and the County Governments Act 2012 outline the role of the county governments in service delivery. Devolved governments are expected to provide public services that are critical for economic growth and prosperity as well as contribute to the creation of an enabling environment for sustainable development and competitiveness. According to the 4th Schedule of the Constitution, these services include agriculture, county health services, transport, planning and development, trade development and regulation, and specific national government policies on natural resources and environmental conservation, and county public works and services.

The Constitution stipulates that not less than 15 per cent of all revenue collected by the national government should be allocated to county governments. However, increased control over resources by county governments will not automatically translate into service delivery (World Bank, 2012a). Previous experience points to the need to avoid overspending on salaries and administrative overheads at the expense of service delivery and infrastructure investment. Thus, the capacity and effectiveness of counties in terms of financial management and service delivery will be a key determining factor in sustaining and attracting new investments. Therefore, the national and county governments have important tasks in planning, budgeting and implementing national and county programmes, and ensuring that there is overall fiscal discipline, transparency and accountability, efficient allocation of public resources according to national and county priorities and ensuring 'value for money'.

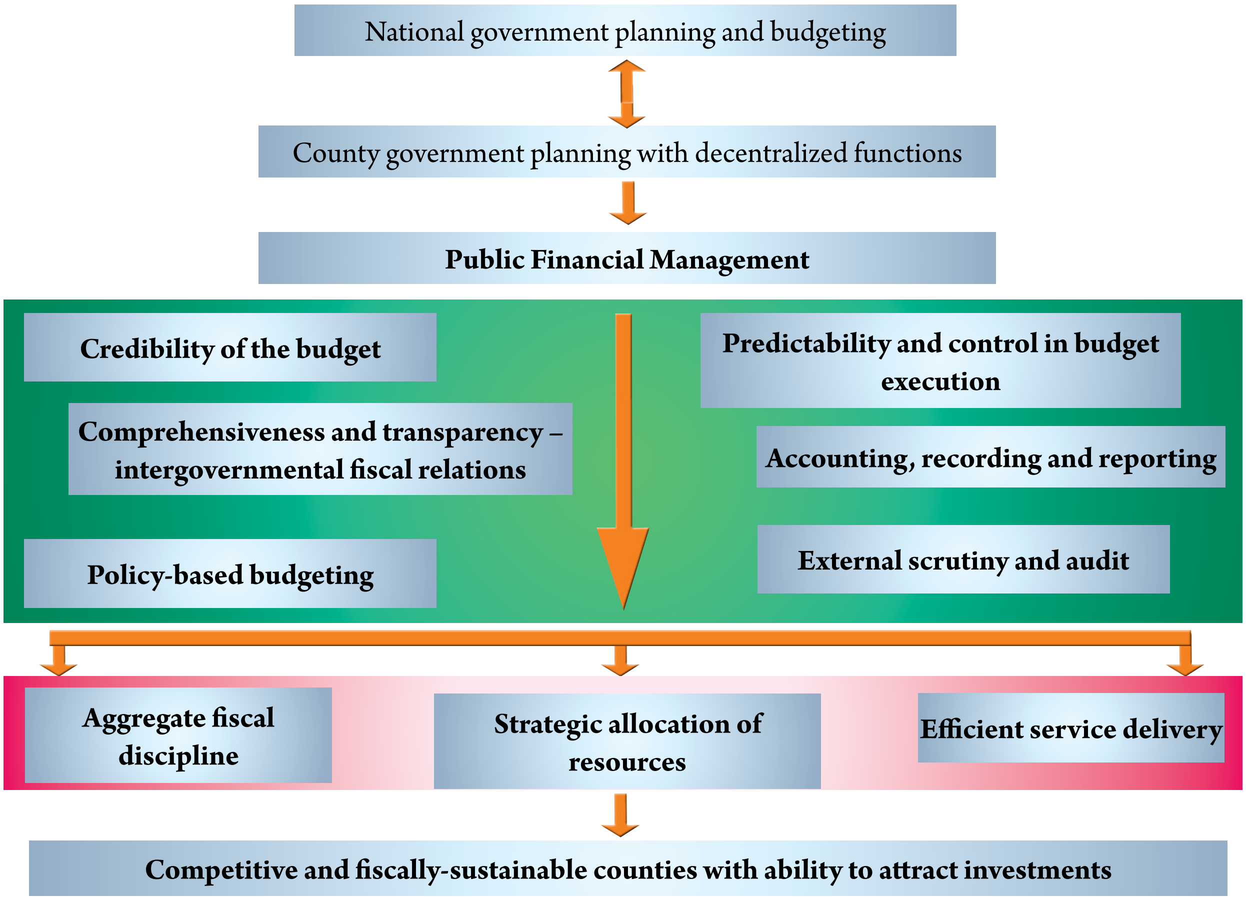
An institutional framework for Public Financial Management (PFM) that supports transparency, accountability, predictability and participation is an important foundation for establishing capable and effective counties. Such a framework is essential for the realization of the goals of public expenditure management, namely: overall fiscal discipline, strategic allocation of public resources, and efficient and cost-effective service delivery.

16.2.1 Analytical framework for public financial management in Kenya

The analytical framework of public financial management (PFM) systems is informed by the Public Expenditure and Financial Accountability (PEFA) assessment framework (Figure 16.1). The PEFA framework is an internationally widely used tool for assessing the performance of PFM systems in key performance areas, namely:

- Credibility of the budget–Whether the budget is realistic and implementation is linked to plans, both at the aggregate and sub-aggregate level;
- Comprehensiveness and transparency–Whether budget information is accessible to the public, and the PFM system supports transparent classification, and fiscal risk oversight;
- Policy-based budgeting–Whether there is a link between the budget and government policy, especially linking to multi-year planning and budgeting;
- Predictability and control in budget execution–Whether the budget can be implemented in an orderly and predictable manner and there are proper systems of expenditure control;
- Accounting, recording and reporting–Whether adequate records and information is kept, produced, monitored and disseminated for decision-making purposes;
- External scrutiny and audit–Whether adequate arrangements are in place for external scrutiny of public finances and follow-up on audit issues; and
- Donor practices–Whether donor support is predictable and information is accessible, and the extent to which donors use national PFM systems. This is consistent with donor commitments on harmonization, alignment and coordination (HAC).

Figure 16.1: Framework for linking Public Financial Management (PFM) to service delivery at county level



Kenya's strategy for reforming public financial management 2013-2018 is informed by the PEFA framework. Each stage in budget planning is important, and it is expected that national and county governments will adhere to the process. An open, participatory and accountable budgetary system consistent with the principles of public finance in the Constitution is critical for service delivery.

Recent reforms in the planning and budgeting process have resulted in the adoption of the Medium Term Expenditure Framework (MTEF) to help link policy, planning and budgeting through a coherent framework. This is one of the important steps the government undertook in 2000/01 as part of budgetary reforms. However, while the MTEF process has been applied at the national level for more than a decade, the same is not true for sub-national governments.

16.2.1 Planning and budgeting at national and county government levels

Planning and budgeting at both national and county levels have their foundation in the Constitution, County Governments Act 2012 and the Public Financial Management (PFM) Act of 2012. The Public Financial Management Act 2012 defines the legal framework for PFM in Kenya. The Act outlines the roles and responsibilities of different players in public expenditure management, the budget cycle, reporting and accounting framework and the oversight framework. The key steps in the budgeting process at the national and county levels as articulated in the PFM Act (2012) are summarized in Table 16.2.

Table 16.2: Planning and budgeting process in national and county governments

National Government [PFM Act, Article 35(1)]	County Government [PFM Act, Article 125(1)]
Integrated development planning process, which includes both long-term and medium-term planning	Integrated development planning process, which includes both long-term and medium-term planning
Planning and determination of financial and economic policies and priorities at the national level over the medium term	Planning and determination of financial and economic policies and priorities at the county level over the medium term
Preparation of overall estimates of national government revenues and expenditures, which are presented in a Budget Policy Statement	Preparation of overall estimates of county government revenues and expenditures, which are presented in a County Fiscal Strategy Paper
Preparation of national budget estimates and submission to the National Assembly for approval	Preparation of county budget estimates and submission to county assemblies for approval
Enactment of the Appropriation Bill and any other Bills required to implement the national government's budgetary proposals	Enactment of the Appropriation Bill and any other Bills required to implement the county governments' budgetary proposals
Implementation, evaluation and accounting for the national government's budgeted revenues and expenditures	Implementation, evaluation and accounting for the county government's budgeted revenues and expenditures
Preparation of the National Budget Review Outlook Paper	Preparation of the County Budget Review Outlook Paper

16.2.2 Public financial management at county level: An overview of legal provisions

The key pieces of legislation relevant for public financial management at the county level are: the Public Financial Management Act 2012; the Cities and Urban Centres Act and the County Governments Act 2012. The PFM Act 2012 presents guidelines on the budget process at both national and county levels (Table 16.2). There are provisions that, if well implemented, will ensure a close link between policy, planning and budget. This is ensured through a Medium Term Expenditure Framework anchored on the Budget Policy Statement that is informed by the development planning process at the county. At the county level, the County Treasury is mandated with the preparation of the County Fiscal Strategy Paper, which should be aligned to the national objectives as stipulated in the National Budget Policy Statement (PFM Act, Article 117) as well as reflect county priorities. In preparing the County Fiscal Strategy Paper, the County Treasury is expected to specify the broad strategic priorities and policy goals that are supposed to guide the county government in preparing its budget for the coming financial year and over the medium term.

With regard to financial accounting and reporting, the Act stipulates that financial statements should be prepared in a clear and comprehensible manner using the prescribed formats (Article 80 & 163). Adherence to this should promote openness and transparency in county fiscal affairs. Under the PFM Act, Article 26, the National Treasury is mandated with preparation of the Budget Review and Outlook Paper, which should include a review of actual fiscal performance in the previous financial year compared to the budget appropriation for that year and the reasons for any deviation from the financial objectives together with proposals and the time required to address the deviations. Similarly, the County Treasury is expected to prepare and submit the County Budget Review and Outlook Paper to the County Executive Committee, with details of a comparison between actual fiscal performance and budget appropriation, and also the reasons for any deviation from the financial objectives together with proposals and the time required to address the deviations (PFM Act, Article 118).

There are provisions for oversight at both national and county government levels involving

Parliament and County assemblies. The financial reporting framework is also clearly articulated in the law. However, there is need to fast-track the full implementation of the PFM Act especially with regard to the development of the regulatory regime for fiscal responsibility principles, public sector accounting standards, debt guarantees and establishment of Treasury Single Accounts.

16.2.3 PFM systems: Learning from past experiences

To de-concentrate service delivery, local authorities in Kenya were mandated with a wide range of responsibilities such as housing, sewerage and drainage, water supply, works relating to supply of electricity, road building and maintenance, among others (Local Government Act Cap 265 Rev. 2010). Over time, it became clear that the resources the local authorities were able to generate on their own were not adequate to deliver the required services. Consequently, the Local Authorities Transfer Fund (LATF) Act 1998 was enacted with the aim of establishing a fund whose main purpose was to provide support from the central government to local authorities. In addition to legislatively allowing for the transfer of funds between the central government and local authorities, LATF was also expected to help improve service delivery, financial management and accountability, and enable councils to pay their debts. To qualify for LATF, each council was required to develop a Local Authority Service Delivery Action Plan (LASDAP). Theoretically, therefore, there have been numerous systems and structures in place to support the undertaking of service delivery by local authorities, despite the numerous challenges.

At the national level, the PEFA assessment (European Union, 2009) on budget credibility showed that actual expenditure was lower than the budgeted expenditure over the reference periods (2004/05-2006/07) even though there was a slight improvement in the indicators as compared to the performance in 2006. For all the three years, the budget outturn showed that there was underutilization of the originally approved budget. On the revenue side, the analysis of budgeted and actual revenue revealed that, overall, the budget was successful in forecasting revenue trends. In addition, revenue as a share of GDP was found to be stable over time. Five out of nine of the set benchmarks were met, indicating that there was room for improvement. On inter-governmental relations, analysis using LATF allocations reveal that there was transparency and objectivity in the horizontal allocations amongst sub-national governments. There was also timeliness and reliable information to sub-national governments on their allocations. However, fiscal information on local authorities was not collected and consolidated according to sectoral categories. For policy-based budgeting, the assessment reveals that even though a fixed budget calendar existed, with adequate guidance on the preparation of the budget, ministries were given inadequate time (only 11 days) to submit their budget proposals. In addition, budget approvals over the reference period were not timely. In terms of budget predictability, the availability of funds for commitment of expenditure was predictable.

At sub-national level, there has been limited assessment of PFM systems in local authorities. However, the LATF gives us a good comparison of inter-governmental transfers that have both conditional and unconditional components. Following the experience with LATF, we can draw several lessons that can inform county PFM practices. Firstly, LATF requirements promoted accountability to the central government through the LASDAP requirements, which entailed timely submission of plans and financial reports and also required participation of citizens in the preparation of the plans. This was mainly achieved by awarding part of the LATF as a conditional grant. Conditional grants can provide the required performance monitoring system in county governments, while at the same time address service delivery bottlenecks (World Bank, 2012). However, an earlier review (World Bank, 2008) of local authorities within

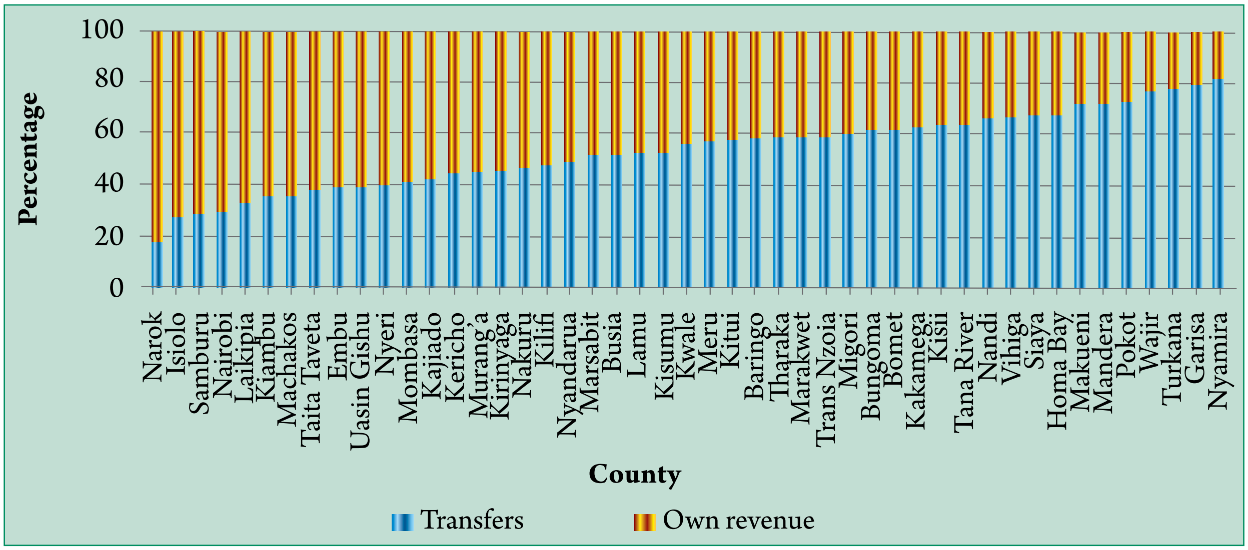
Kenya's main cities (i.e. Nairobi, Mombasa, Nakuru, Kisumu and Eldoret) showed that there was limited downward accountability because the LASDAP management process was largely influenced by political pressure. The setting of expenditure priorities was highly politicized, with the aim of achieving short-term political gain, which led to a thin allocation of resources across many local competing needs, thus undermining the effectiveness of the process. Even though there is legal provision for ensuring accountability with regard to county level public financial management, there is need to ensure that these provisions are implemented, unlike the case of LASDAP.

Second, the experience with local authorities reveals that most local authorities relied heavily on external transfers. By grouping local authorities into their respective counties, more than half of the counties have been relying on external transfers (in this case LATF), which accounted for 82 per cent in Nyamira, 79 per cent in Garissa, 78 per cent in Turkana and 76 per cent in Wajir (Figure 16.2).

Using data on revenue allocation by county (CRA, 2012) and information on own county level revenue for 2008/09, we find that there will be high dependence on transfers from the national government (Figure 16.3). There are indications that 43 out of the 47 counties will have transfers accounting for over 90 per cent of their revenue. This calls for the need to maximize the potential of counties to raise their own revenue, even though the Constitution grants them limited powers of raising revenue. For counties to be able to raise revenue, there is need to put in place necessary legislation and also build their capacity to administer the required taxes and levies.

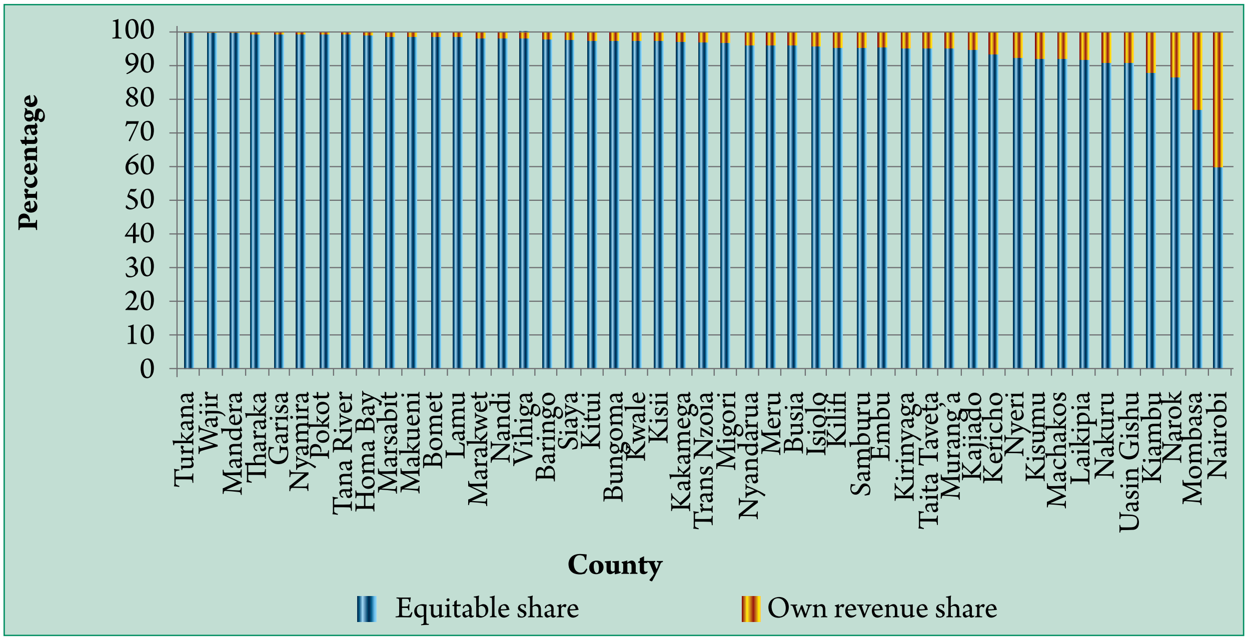
Third, despite having some limited power to collect revenues, most local authorities have also been plagued by low compliance rates, which have led to accumulation of arrears. Some counties such as Nairobi, Mombasa and Thika have accumulated arrears averaging about Ksh 10 billion which, if not properly recorded, might be lost during the transition to county governance. Specific efforts should be made to understand the reasons for non-compliance in a bid to address the problem. For instance, there is need for adequate enforcement measures, including but not limited to higher penalties for non-compliance, seizure of properties and legal redress.

Figure 16.2: Revenue sources for counties (LATF)



Source: Authors' compilation

Figure 16.3: Revenue sources for counties (revenue allocation by county)



Source: Authors' compilation

Fourth, most local authorities have been characterized by poor planning and poor financial management. One of the common features across most local authorities is the tendency to run deficits, which can either be attributed to poor forecasting of revenue or overspending. A KIPPRA study (KIPPRA, 2012) on sub-national public financial management in Nairobi, Mombasa and Narok revealed that all the three local authorities had positive expenditure deviations (actual exceeding budgeted) in all the three years, with the highest being 56 per cent for Mombasa in 2010/11 (Table 16.3). In addition, the Councils had payment arrears averaging over 10 per cent of total expenditure, which led to accumulation of Council debts. Deviations between actual and budgeted revenue were also broad, with Narok recording the highest deviation of 136 per cent in 2010/11. Because of the large variations between actual revenue and expenditure, some local authorities have accumulated debts, which have to be put into consideration during the transition into county governments. This indicates that local authorities were faced with budget credibility issues. To avoid county governments facing the same challenges, there is need to ensure that relevant provisions that promore budget credibility are adhered to. Of particular importance is the PFM Act (Article 142), which puts a limit on short-term borrowing for cash management that is pegged at 5 per cent of the

Table 16.3: Budget performance in selected local authorities

Local Authority	Expenditure (% deviation)			Revenue Performance (Actual/ Budgeted)		
	2008/09	2009/10	2010/11	2008/09	2009/10	2010/11
Nairobi	4	3	12	127	91	71
Narok	5	9	22	83	125	136
Mombasa	11	21	56	101	97	98

Source: KIPPRA (2012)

most recent audited revenues, with a condition that it is repaid within a year. Impleementation of fiscal responsibility principles will also support budget credibility.

Fifth, local authorities have also been characterized by improper financial recording and reporting. The Local Authority Integrated Financial Operations Management System (LAIFOMS), which is a computerized system that aims at improving and harmonizing the process of budget preparation and execution, was launched as part of local government reforms. Despite the introduction of LAIFOMS, many local authorities were not computerized. This makes it difficult to ascertain the value of the authorities' assets and liabilities, which is important during the transition period.

Sixth, results from KIPPRA (2012) indicate that inter-governmental transfers were fairly predictable, with all the selected Councils recording deviations between estimated and actual transfers of less than 10 per cent, especially with regard to LATF. In terms of comprehensiveness of the budget, only four out of the nine set benchmarks were met, which indicates room for improvement on policy-based budgeting, the analysis showed that local authorities had a fixed budget calendar with proper guidelines issued by the Ministry of Local Government, which they adhered to. In addition, budget approvals were done on time. However, the local authorities did not have a multi-year forecasting framework which, at the national level, was being done through the Medium Term Expenditure Framework (MTEF). However, this does not pose a big challenge to the transition into county governance as the PFM Act 2012 provides for medium-term and long-term planning within county governments.

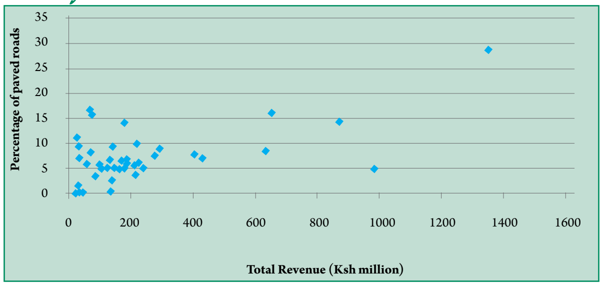
Lastly, the linkage between planning and budgeting in local authorities has been poor, which has led to lack of prioritization. This has resulted into most local authorities spending heavily on recurrent expenditure, especially wages and salaries, with little emphasis on capital projects, thus undermining service delivery.

16.2.4 Service delivery

There is a huge expectation that devolution will result into more equitable development, with more marginalized areas greatly benefiting from the transfer of resources. There are disparities in access to services such as water and sanitation, roads, education and health services across counties. However, whether expectations about improved service delivery will translate into reality greatly depends on whether counties will have adequate resources and capacity to meet the much-needed services.

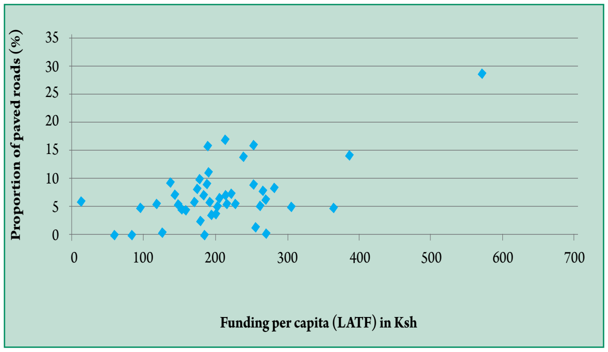
For instance, there are wide regional disparities in the proportion of paved roads by county, with the poorest performers being Mandera, Marsabit, Wajir and Isiolo and best performers being Nairobi, Mombasa, Kiambu, Baringo and Kisumu. Given the mode of devolution, the question is whether the poorly performing counties will be able to considerably improve on their service delivery indicators, especially for decentralized functions such as infrastructure and health. To shed some light on the relationship between resource needs and the outcome indicators, we carry out a simple correlation analysis of the relationship between the proportion of paved roads, total county revenue and funding per capita (for LATF) using a scatter diagram (Figures 16.4 and 16.5).

Figure 16.4: Correlation between total county revenues and percentage of paved roads in the county



Source: Authors' compilation

Figure 16.5: Correlation between funding per capita and percentage of paved roads in the country



Source: Authors' compilation

The results reveal a positive correlation between the amount of revenue a county had at its disposal (also funding per capita) and the percentage of roads that are paved (Figure 16.5). This could imply that lack of adequate financial resources can be a major impediment to service delivery at the county level. Thus, to bridge regional inequalities, counties with poor service delivery indicators (such as infrastructure, health, etc.) might require more funds than those with better indicators to be able to improve on their outcomes.

16.2.5 Key recommendations

Sound financial management is required if counties are to meet their service delivery goals. Thus, to inform the devolution process, we recommend that:

- There is need to enhance the counties' ability to generate more revenue, given that most counties are likely to rely more on transfers. This can be achieved by enhancing the capacity of the counties to administer the levies/taxes that are allowed under the law;

- There is need to ensure downward and upward accountability through enhanced public participation and publication of county budgets and records. Efforts should be made to reduce the possibility of political/elite capture of the process;

- The implementation of principles of fiscal responsibility needs to be fast-tracked through enabling regulations;

- There is need to build capacity for counties especially in terms of budget preparation and execution, and other aspects of PFM such as implementation of the Treasury Single Account, participation, and reporting, and accounting standards;

- Given the existing regional disparities in access to services, future revisions to the revenue-sharing formula should consider incorporation of an index of deprivation in terms of access to services. Use of conditional grants may also be considered to ensure that more deprived counties have adequate resources to improve access to services, which would reduce regional disparities; and

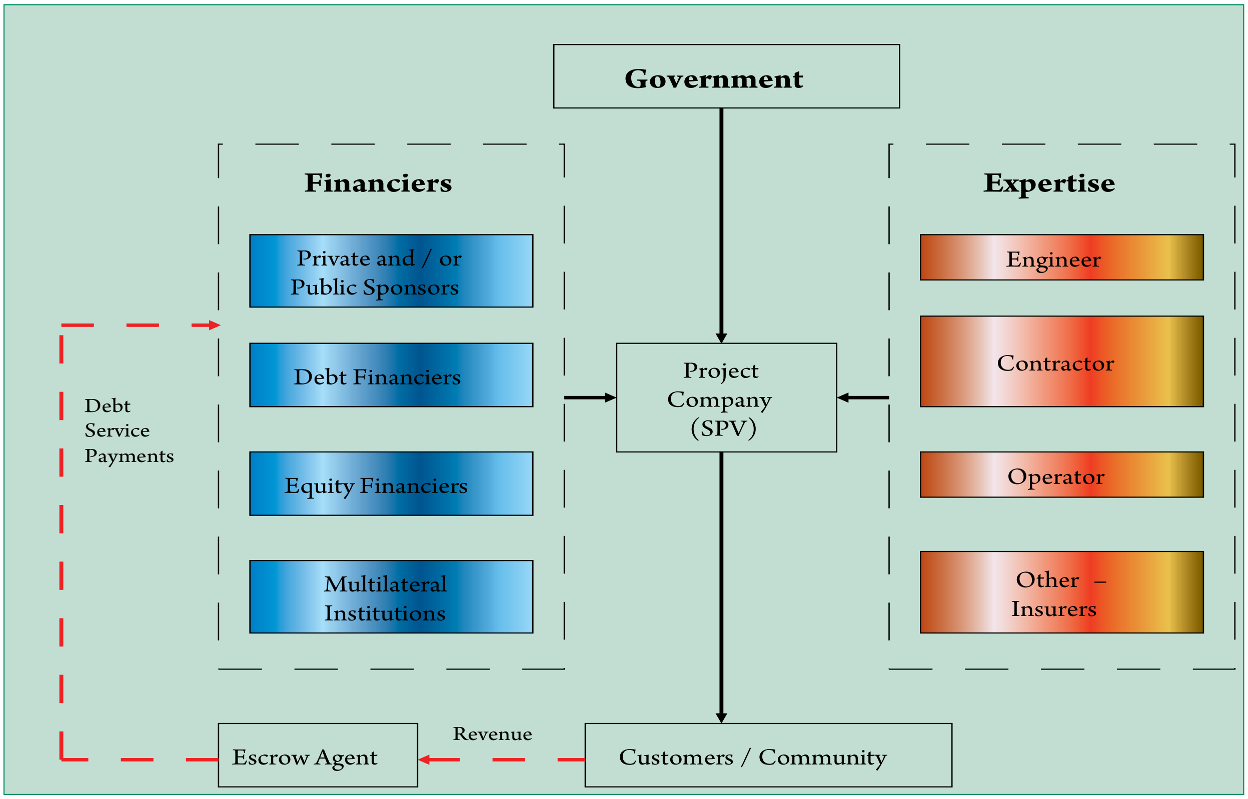
- There is need for a strategy to address the problems that counties inherit from local authorities, including institutional and human resource capacity gaps.

16.3 Role of Public-Private Partnerships for Competitive and Sustainable Counties

16.3.1 Introduction

Governments have historically financed development projects through budgetary allocations. However, as the demand and scale of projects grow and access to resources becomes limited, the public sector has increasingly looked to the private sector to provide financial resources, innovation and technical expertise. Though working relationships between the public and the private sector are not new, the term 'public-private partnership (PPP)' is a relatively recent development terminology. According to UNESCAP (2004), PPPs are a "cooperative venture between the public and private sectors, built on the expertise of each partner

Figure16.6: Framework for public-private partnerships



Source: Adapted from UNESCAP (2004*)

that best meets clearly-defined public needs through the appropriate allocation of resources, risks and rewards". Given the limited resources available to county governments, this section explores how PPPs can be leveraged to improve service delivery and infrastructure development.

16.3.2 Concept of public-private partnerships

Projects based on PPP can be quite complex, involving many different participants, including government, private sector experts, financiers and customers, each having different perspectives and interests, which may not always be fully understood by the other participants. Figure 16.6 shows the framework of PPPs. PPPs are normally deployed based on models that vary by ownership of capital assets, responsibility for investment, assumption of risks and the duration of contract.

PPPs can contribute to achieving county development objectives by building on long-term contractual agreements covering the design, construction, financing and ongoing operation of development projects. Many PPPs use the 'project finance model', whereby lenders take project risks and rely principally on the cash flows generated by the project for the repayment of loans. This is in contrast to the 'corporate finance model' where the general creditworthiness of the private sector borrower is paramount. Therefore, PPPs could start with public-private strategies followed by joint proposals of regulations, and growing a business together (Grigorescu, 2008).

In PPPs, an escrow account is set up, usually at the request of financiers, and managed by a third party in order to safeguard project revenues for the purpose of ensuring that debt service obligations are met. A "Special Purpose Vehicle" (SPV), on the other hand, is a separate commercial venture set up to undertake the project and all contractual agreements between the various parties involved.

16.3.3 Current policy framework

The Public Private Partnership Act (No.15 of 2013) provides the necessary legal instruments to support private capital investments towards public infrastructure development. Through Kenya Vision 2030, the government has already identified key development areas to be deployed under the PPP framework across the country. The policy environment thus makes PPPs a viable option for promoting investments especially in capital-intensive projects. The logic behind this shift in policy is the realization that significant public finance and resources previously allocated to the sector will now be diverted to other sectors, and resources are inadequate.

Public-private partnerships should be encouraged through mechanisms and instruments such as tax incentives, enabling regulatory environment that is friendly to participation by the private sector and development partners, and financing models with policies that facilitate concessions and ownership. The Second Schedule, Section 19 of the PPP Act, 2013, provides for the following PPP arrangements:

- Management contracts
- Output-performance-based contracts
- Lease of public property
- Concessions
- Build-Own-Operate-Transfer
- Build-Own-Operate
- Build-Operate-and Transfer
- Build-Lease-and Transfer
- Build-Transfer- and Operate
- Develop-Operate-and-Transfer
- Rehabilitate-Operate-and-Transfer
- Rehabilitate-Own-and-Operate
- Land Swap

With this framework in place, it is clear that the aspect of PPPs is quite extensive and applies nearly in every sector with scope for innovative adaptations to make it attractive and worthwhile for national and county governments.

16.3.4 Implementing infrastructure projects in the counties through PPPs

Public-private partnership (PPP) in infrastructure is relatively new in most developing countries, Kenya included, and will be a newer concept for county governments. Although governments have taken steps to promote PPPs, lack of capacity in the public sector remains the major problem in implementing PPP projects. Other issues include institutional arrangements and development of manuals and resource materials in support of PPP development. In the absence of the requirements aforementioned, county officials will face difficulties in project development and implementation, and the general public will have many misunderstandings about PPP projects.

The county governments will face challenges of growing demand for new and better infrastructure services, as available funding from the traditional sources and capacity in the public sector to implement projects remain limited. Partnership with the private sector is an attractive alternative to increase and improve the supply of infrastructure services. County governments could partner in PPPs through legally-binding contracts, agree to share responsibilities related to the implementation and/or operation and management of infrastructure projects. This partnership should be built on the expertise that each partner meets, and defined public needs through appropriate allocation of resources, risks, responsibilities and rewards. PPP arrangements can be pursued between county governments and private entities in the infrastructure sector for the following reasons:

(i) Increased efficiency in project delivery, operation and management;

(ii) Availability of additional resources to meet the growing needs of investment;

(iii) Access to advanced technology; and

(iv) Proper planning and development of projects.

Lack of funding should not be the sole reason for deciding on PPP options, as additional costs for PPP projects could make them more expensive. These additional costs include: costs of borrowing money, administrative costs for management of PPP contracts, transaction costs, and explicit and implicit liabilities imposed on governments. Therefore, county governments should not implement PPP projects unless efficiency gains from improved project delivery, operation and management, and access to advanced technology can offset the additional costs. Value for money should be the main criterion in judging the PPP option of a project. PPPs can also be attractive to county governments as an off-budget mechanism for infrastructure development, as they enhance the supply of infrastructure services, provide relief from the burden of the costs of design and construction, allow transfer of project risks to the private sector, and promise better design, technology, construction, operation and service delivery.

It is also important to note that there are various limitations attributed to PPPs that county governments should take into account, such as the fact that not all projects are feasible for PPP. This means that the county governments will need to clearly appraise the projects to determine the viability of PPP before committing to contracts. Secondly, the private sector may not be interested in a particular PPP and it will, therefore, be the primary responsibility of the county government to create interest and awareness in attracting private capital. Thirdly, it should be noted that change in operation and management may not improve economic performance, especially if there are weaknesses in governance.

PPPs in infrastructure projects are viable if:

(i) They are different from conventional projects in terms of project development, approval, implementation, administration and management;

(ii) A robust business model can be developed;

(iii) The focus is on delivering specified services at defined quantities and levels;

(iv) The risk allocation between partners is part of the PPP contract design; and

(v) Both partners understand the risks involved and the allocation of risks between them.

According to the current national Water Master Plan, the country's water demand is projected to rise at least six times as Vision 2030 programmes are implemented, thus requiring about 600 per cent increase of infrastructure capacity. Avenues that entrepreneurs can utilize are the opportunities for innovative financing of the Water Services Sector (WSS) through stakeholder participation, efficiency promotion to enhance cost recovery and even implementation of public-private partnerships (PPPs) wherever applicable. Other opportunities include:

- The high-priority water uses that are important to each region when identified can enhance accurate allocation of water rights and the requisite payments regime;
- Adaptation and mitigation strategies, including construction of storage structures such as dams and flood control dykes in strategic locations to reduce vulnerability of the poor and marginalized communities; and
- Stakeholder participation in the required self-regulating trans-boundary institutions for inter-county water.

There is need to rethink and re-order investment priorities in this sector for effective service delivery and spatial coverage. Regressive subsidy policies that continue to favour the richest quintile in piped water services and similar infrastructure services should be reviewed. Low-cost technologies can help address the concomitant water infrastructure funding gaps.

16.3.5 Public-private partnerships in the agriculture sector

Public-Private Partnerships (PPPs) hold a great promise for achievement of agricultural development in the country. Partnerships across different agricultural value chains can be mobilized and organized to provide synergy and sustainability for the purpose of increasing farm production and improved livelihoods. There is unexploited potential for PPPs in the following areas:

Provision of cold chain infrastructure

With the demand for better quality food at affordable prices and at the right time by consumers, there is need to invest in cold chain services especially for the highly perishable commodities in fisheries, horticulture and dairy. This will reduce the losses, which the producers are faced with, and encourage intensive production. The success of implementing cold chain infrastructure involves proper network optimization of warehouses, facility planning, the monitoring of product quality throughout the cold chain and having a corrective action plan to counter any gaps. Further, the high cost associated with operating cold chains needs the adoption of PPPs strategy in establishing the cold chain infrastructure. This will enable service providers to understand the importance of capacity utilization, productivity, inventory, cost, and waste, error and theft (WET) management, along with the ability to track and trace these parameters. It is necessary that the policy on investment in cold chain infrastructure be given the priority and budgetary commitment it deserves.

ICT and agriculture

One of the central objectives of the agriculture sector is to produce enough food to feed the population and minimize food import. Risk and uncertainty that include uncertain weather, pests and diseases, volatile market conditions and commodity prices in agriculture are varied and ubiquitous. Their management is of particular importance to smallholders because they lack resources to mitigate, transfer and cope with risk. Production, marketing and enabling environmental risks have been limiting agriculture sector investment, especially from external parties due to lack of timely information, which is an essential factor in managing risk. Information communication technologies (ICTs) have recently been proven to be highly cost-effective instruments for collecting, storing, processing, and disseminating information about risk. Early warnings on severe weather conditions, market movements, and pest and disease outbreaks are directed to farmers using information services such as mobile phones and radios, and hence limiting potential losses.

Farmers can also access advisory services remotely to support their decisions related to risk-mitigating activities or to choose the most appropriate action in response to an early warning. Therefore, these decision support systems are critical for transforming information into risk-mitigating action. In a few instances, ICT applications have been used in Kenya to facilitate the design and delivery of index insurance where it has enabled the innovative Index-based Livestock Insurance in Kenya and Kilimo Salama Index-based Input Insurance. However, the application of ICTs to transfer agricultural risk through instruments such as insurance and futures contracts in Kenya is still quite limited. This could be due to low levels of institutional development, high costs, inability to customize products to meet smallholders' requirements, and poor financial literacy rather than by the information constraints that ICTs can address. There is need to invest and enhance the provision of these ICT services in the country through PPPs in order to increase the productivity, hence food security and poverty alleviation.

Development of cottage industries (Value addition)

The government strategy for the development and transformation of the agriculture sector is outlined in Vision 2030 with a key policy of value addition of products before they reach the market. Development of competitive agro-industries is crucial for generating employment and income opportunities. It has the potential to provide employment for the rural population not only in farming, but also in off-farm activities such as handling, packaging, processing, transporting and marketing of food and agricultural products. Agro-industries also enhance the quality of, and the demand for, farm products. There are clear indications that agro-industries are having a significant impact on economic development and poverty reduction, in both urban and rural communities.

Further, value addition negates the perishability of primary/raw goods through processing, and finally valued-added goods value more in the international market than raw materials. Countries such as Thailand, Malaysia, Singapore, and other developed countries, which less than half a century ago were classified as developing countries with Kenya, experienced their rapid economic growths through the processing of natural resources into higher value-added products. In addition, value addition enhances food security and also offers numerous opportunities for livelihood sustainability. Therefore, in order to ensure that this process is successful, an atmosphere of transparency, probity, accountability, fairness, morality, good governance and integrity is needed.

Youth population dynamics and skill development

Youth unemployment is a growing problem, as it constitutes 70 per cent of total unemployment in Kenya. The population of youths in Africa is estimated at 200 million with an approximately 30 per cent of the population (age between 18-35 years) in Kenya (World Bank, 2009). The youths are faced with insufficient vocational skills, social capital and limited understanding of market dynamics. An estimated 67 per cent of Kenyan youths lack vocational skills after dropping out of secondary school education, and this has led to high youth unemployment that is posing a serious threat to Kenya's social and political fabric. This has jeopardized equitable economic growth and social cohesion by denying the country a chance to reap from the potential benefits of her growing youth population.

A critical proportion of Kenyan youths have enrolled in universities and colleges, yet cannot fit in the formal job market due to skills mismatch and irrelevance of their courses. Availablr data indicates that 2.1 million Kenyans were in formal employment while 9.3 million people were self-employed by 2011. The government, through PPPs, could encourage youths to put more focus on agriculture and information and communication technologies (ICTs) since they have a high potential for growth in the country. It is, therefore, necessary for a policy to create robust linkages between universities and industry, which will support skills development consistent with our development needs.

16.3.6 Stimulating tourism public-private partnerships at county level

In all counties, there is potential for use of PPPs to accelerate development of tourism infrastructure, including upgrading airstrips to asphalt status, constructing tourism-class accommodation facilities, health centres, water and sanitation facilities and recreational facilities. A few lessons may be learnt from France's model given below (Box 16.2)

Box 16.1: Stimulating tourism development in rural France

France is the world's fifth largest economy by nominal GDP figures and the ninth largest by Purchasing Power Parity figures. Out of the US$ 2.216 trillion GDP (Purchasing Power Parity) in 2010/11, tourism contributed 6 per cent (or US$ 132.96 billion). France is a leading tourist destination, with nearly 80 million business and leisure travellers annually.

France offers mountain ranges, coastlines such as in Brittany or along the Mediterranean Sea, cities with a rich cultural heritage, châteaux (castles) such as Versailles and vineyards. France has 37 sites inscribed in UNESCO's World Heritage List. Other attractions include seaside resorts, ski resorts, annual cycle race (the Tour de France); beautiful rural regions (green tourism); mountain campsites; luxurious cuisine; and small picturesque French villages. Majority of inbound visitors come from the US, Britain and Germany.

The public sector ensures the legislative and regulatory framework in the tourism sector sets the standards in the industry, encourages research and development in leisure products, sports products, agro-foods and provides natural and cultural resources. Income tax collected from enterprises in national parks and other sensitive areas that are open to the public is used to develop and rehabilitate, maintain and manage these areas. The classification of tourist resorts, hotels, holiday rentals and campsites has been decentralized to tourist offices in territories (or communes).

The regional governments prepare regional tourism development and implementation plans. The State and territorial authorities are directly involved in the construction and maintenance of transport infrastructure (ports and inland waterways, high-speed railway network, airports, roads and motorway network), winter sports facilities/resorts (a key tourist attraction to France); and provision of basic public services such as water and sanitation, energy, communications (post and telecommunications) to domestic and inbound tourists.

As an incentive to private sector investors within the tourist 'Rural Revitalization Zones', tax benefits are granted to owners and operators of tourist accommodation facilities and other enterprises in the zones. Since the tourism sector in France provides approximately 1 million jobs in around 200,000 firms, the government provides huge incentives to these firms too. Although employment in the tourism sector is seasonal, the central government has legislated creation of contract employment tailored to periods of seasonal work, development of employers' groups, better access to training and recognition of acquired skills, changes to occupational medicine, and access to various allocations, particularly housing benefits.

Professional assistance is provided through a network of 159 chambers of commerce and industry, as well as 20 regional chambers. These bodies are grouped together in the Assembly of French Chambers of Commerce and Industry (ACFCI). The chambers are vital resources for development of hotels and restaurants, and supply of leisure or tourism services. Various semi-public agencies are run by tourist offices and committees operated by communes. Some of these agencies implement projects through Public-Private Partnerships.

The French Agency for Tourism Engineering (AFIT) is a national public agency administered by the State Secretariat for Tourism. Its key tasks include tourism market research and product development, which it does in close partnership with all stakeholders in the industry. The AFIT helps to develop the national supply of tourism goods and services and to match that supply to requirements. It provides expert advice to the sector.

Source: André-Jean Guerin, 2004; The French Initiative for Innovation in Tourism; OECD; and various websites

16.4 Investing in Human Resource Development for Competitive and Sustainable Counties

16.4.1 Introduction

The World Economic Forum (WEF) 2011 report on competitiveness identifies human capital as an important driver of national competitiveness. The report notes that as a country becomes more developed, the importance of human capital increases and gets as much as 24.2 per cent (at the innovation stage) of the final score that measures national economic competitiveness from 18.7 per cent of the score at the efficiency-driven stage. Research (e.g. Barro 2000) shows that human capital contributes positively to economic growth.

The challenge facing the country currently in terms of low levels of human capital is traced in the regional disparities in access to health and education. These disparities are not isolated but cut across the different regions in the country, basically because health and education sectors (which are the measures of human capital and human development) have been facing challenges for a long time.

For instance, health care provision within the devolved system of government is likely to face several challenges, key among them being uneven inter-county levels of development – unequal distribution of health, infrastructure and resources, especially the distribution of health facilities, human resources and transport and communication infrastructure. According to the 2009 Population and Housing Census (Government of Kenya, 2010), 67.7 per cent of Kenya's population live in rural areas where the infrastructure for communication and health services is poorly developed.

Current issues in education and training in Kenya are many and range from policy and regulatory problems to ensuring compliance with the Education Act. The broader objective that the national and county governments have to pursue, as envisaged in Kenya Vision 2030 is to achieve 100 per cent net enrolment ratio (NER) in primary schools and reduce the disparities in access, gender and quality of education.

As the country moves to devolve, the status of human capital indicators in the 47 counties warrants indepth analysis. For instance, it is important to understand whether the level of health and education is significantly different in the counties. This would inform public policy on the extent to which national government resources can be shared to uplift those that already lag behind.

16.4.2 Importance of human capital in development

The major components of human capital are health and education. However, health and nutrition are some of the initial factors that come into play in human capital development. People first need health before they take in skills. Healthier people can transform their energy into productivity, both mental and physical, more efficiently than ill and undernourished people can. An efficient use of people's productivity turns into more economic output, higher income and economic development. Increased income and reduced poverty make people afford better diets, improved health care and healthier living conditions.

The first thing that an individual gets upon birth is health. This implies that human capital development should start at childhood. Specifically, poor health in childhood might depress the formation of human capital because much of a person's physiological and cognitive development happens in childhood, and hence human capital investments should be made early in life. This implies that investment in childhood human capital can be the initial foundation to the counties' growth and development. Focusing on childhood human capital today means the county is developing tomorrow's talent. Healthy and well-nourished children can definitely achieve higher intelligence and educational attainment. Grira (1998) showed that in Bangladesh, underweight children tend to get lower grades than well-fed children of the same age.

The extent to which human capital would drive a county will, however, be determined by the quality of the education system and institutions. It is obvious that education helps in enhancing workers' skills and productivity. While basic education increases the efficiency of an individual worker, higher education becomes necessary to create a pool of well-educated workers who can undertake complex tasks. Together with efficiencies in the labour market, all these factors ensure that there is no shortage of talent necessary to exploit economic resources cost-effectively. Thus, health, education and labour have been categorized as among the necessary efficiency enhancers, especially for economies that seek to be efficiency-driven.

High educational attainment, high literacy levels and high levels of human capital are likely to improve the business environment. Possessing such characteristics facilitates the emergence of a highly skilled labour base that is attractive to business. Empirical evidence shows that it is important for the domestic population to have sufficient human capital so as to possess the absorptive capacity to maximize the benefits of business spillovers (Narula and Narin, 2003). Research has also shown that the availability of local skills is important in attracting FDI and that human capital formation is a prerequisite for benefiting from FDI and by extension business (Nunnenkap, 2002; Miyamoto, 2003).

Economic transformation requires skills and innovation, which make the development of human capital key for county development. Human capital will determine the number, quality and availability of engineers, for instance. It would also affect the quality and availability of doctors in a county. Thus, a healthy and highly educated county citizenry will guarantee a good catalyst for high productivity of the county.

16.4.3 Status of human capital and its implication for counties' competitiveness

Human capital has a major role to play in Kenya's economic recovery as stated in Vision 2030. It is about building the capacity of the people to be more productive. The acquired capacity is the human capital and it emanates from investments in people's education and health. Education and training facilitate the acquisition of new skills and knowledge that increase productivity. Healthy individuals increase their value in the labour market. To accumulate the human capital necessary for sustainable economic growth, therefore, a county has to invest in, among other areas, education and health.

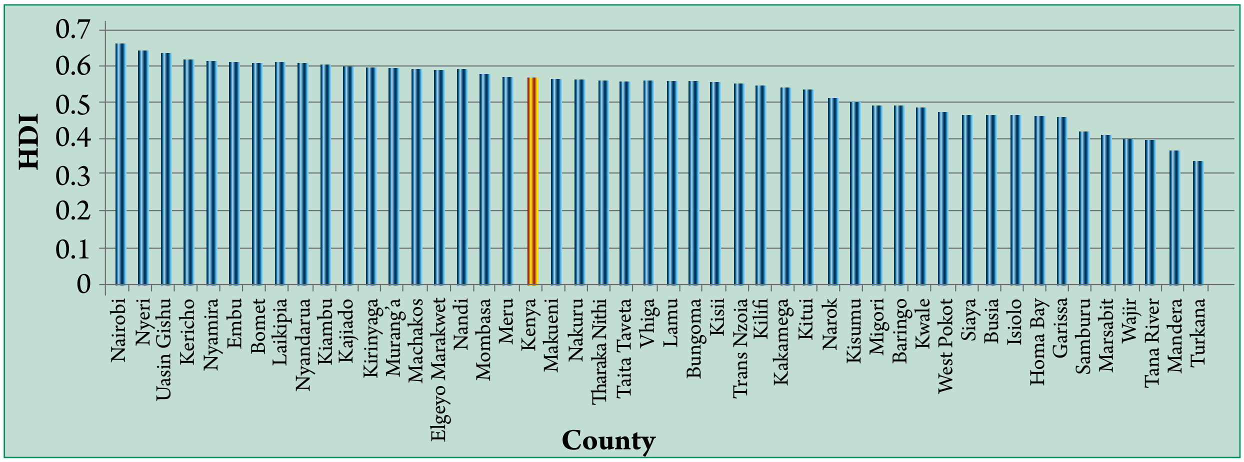
As the country aims to achieve a middle-income status as per Vision 2030, one of the key goals is to improve the human development index from the current level to 0.75. The HDI provides a composite measure of the three dimensions of human development that include life expectancy, being educated (adult literacy and gross enrolment in education) and having a high standard of living (measured by purchasing power parity income). The HDI ranges between 0 and 1, with zero (0) denoting very low levels of welfare and one (1) high levels of welfare.

The 47 counties are at different levels of human development. The highest ranking in terms of HDI is Nairobi at 0.653, while the lowest ranking is Turkana at 0.333 (UNDP, 2010).

This implies that the effort required to boost Nairobi to the country target of 0.75 is less than the effort required for Turkana. This will be the situation for most of the counties whose HDI is far from the country's target of 0.75. This means that a lot of resources would be required for Turkana for health (to improve life expectancy); education (for literacy and skills development); and improvement in productivity in the county (to increase incomes and hence promote high standard of living). These are the factors that contribute significantly to enhancement of human capital in a county.

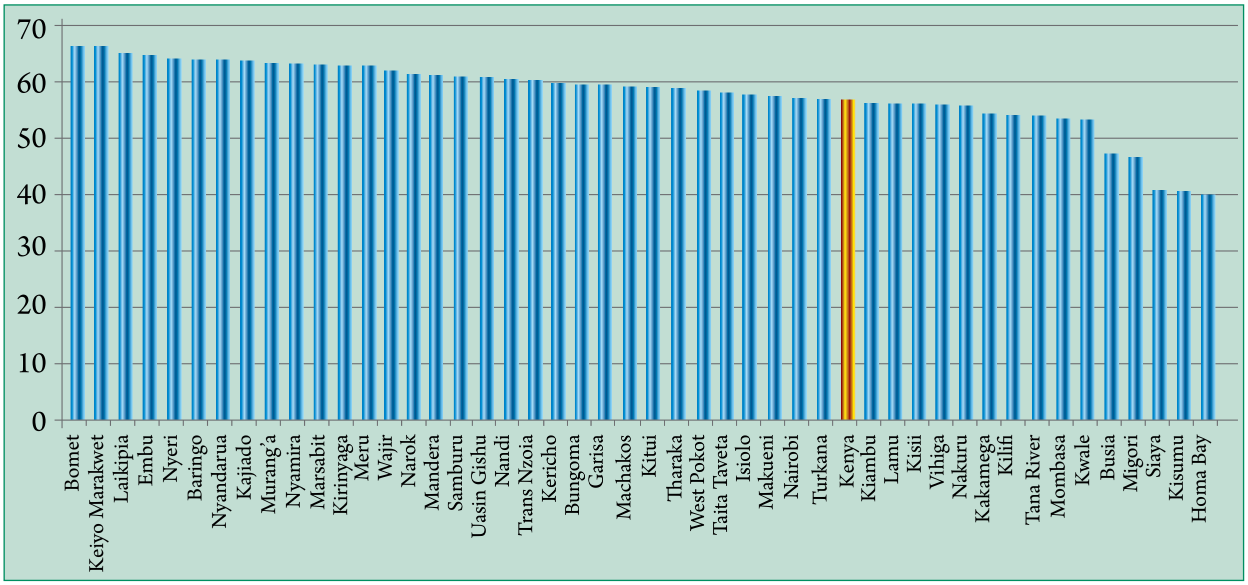
The situation from life expectancy numbers shows that most of the counties with a life expectancy at birth above 60 years also have a better HDI than those whose life expectancy is below 60 years. Life

Figure 16.7: Human Development Index by county



Source: Compiled from UNDP (2010)

Figure 16.8: Life expectancy by county



Source: Compiled from UNDP (2010)

expectancy at birth reflects the status of the health care services in a region. It shows the probability of a child surviving given the current conditions of the health system.

For instance, counties such as Nyeri, Uasin Gishu and Kericho have a HDI above 0.6. The life expectancy in these counties is approximately 60 years and above. The literacy levels stand at 86.5, 82.4 and 82.0, respectively. This implies that such counties are likely to have higher productivity than counties such as Turkana, Mandera and Tana River, whose HDI levels are below 0.4 and hence performing poorly in health and education indicators.

Table 16.4 shows that the HDI for Kenya increased from 0.474 in 2006 to 0.509 in 2011, with a rank of 143 out of 187 countries. Kenya's life expectancy at birth was 53.7 years in 2006 and 57.1 years in 2011 (Table 16.5). However, the regional disparities

Table 16.4: Trends in Human Development Index (HDI) for selected countries, 2006-2011

Country	2006	2007	2008	2009	2010	2011	Rank 2011 out of 187
Uganda	0.410	0.420	0.430	0.438	0.442	0.446	161
Rwanda	0.390	0.401	0.411	0.419	0.425	0.429	166
Nigeria	0.438	0.445	0.451	0.456	0.460	0.463	156
Ghana	0.494	0.508	0.519	0.527	0.533	0.541	135
Kenya	0.474	0.486	0.493	0.499	0.505	0.509	143
Malaysia	0.742	0.746	0.750	0.752	0.758	0.761	61
South Africa	0.601	0.604	0.608	0.610	0.615	0.619	123
Indonesia	0.579	0.591	0.598	0.607	0.613	0.617	124
Germany	0.898	0.901	0.902	0.900	0.903	0.905	9

Source: UNDP, Human Development Reports (2012)

Table 16.5: Trends in life expectancy for selected countries, 2006-2011

Country	2006	2007	2008	2009	2010	2011
Uganda	51.0	51.8	52.5	53.1	53.7	54.1
Rwanda	53.0	53.7	54.3	54.7	55.1	55.4
Nigeria	49.0	50.0	50.5	51.0	51.4	51.9
Ghana	61.7	62.3	62.9	63.4	63.8	64.2
Kenya	53.7	54.4	55.2	55.9	56.6	57.1
Malaysia	73.1	73.3	73.5	73.7	74.0	74.2
South Africa	51.0	51.1	51.4	51.8	52.2	52.8
Indonesia	97.4	67.8	68.1	68.5	68.9	69.4
Germany	79.5	79.7	79.9	80.1	80.3	80.4

Source: UNDP, Human Development Reports (2012)

indicate that some counties' HDI and life expectancy is substantially low relative to international targets.

The human capital development in low HDI counties implies that such counties would require huge investments in health and education sectors as a first step to creating a pool of skills that should act as a catalyst in developing other sectors. While this is happening, the counties with high HDI would be investing in other productive sectors such as agriculture, manufacturing, infrastructure, and technology as they already have a pool of skilled manpower given their high levels of literacy and enrolment in education institutions. Thus, such counties would emerge better off in terms of high productivity and competitiveness.

A highly skilled population is likely to provide a pool of labour that earns high incomes, and this generates demand for goods and services in the county. At the same time, high incomes may lead to higher savings and investment as the county moves to satisfy the demand. On the other hand, a low-skilled county will only ensure low innovation, high dependency on (free) public goods and hence high poverty and dependency rates. The county is likely to be a net importer of goods, services, skills and capital from other counties. This will be a loss to such a county because its competitiveness would be low.

For the poor in the rural counties, lack of physical infrastructure is the largest obstacle to the access of health services. Distance to health facilities limits people's willingness and ability to seek care, particularly when transport is limited. Currently, there is a heavy urban bias in the distribution of health facilities. Large cities are much better served by both public and private health infrastructure than would be expected from their roles of serving urban populations and providing referral services for the surrounding population. Wealthier regions also have better access to infrastructure. Public investments need to address inequities in the present distribution of health infrastructure.

As human capital and hence human development emanates from investments in health and education, it is well reflected that the counties with high HDI have greater numbers of health and school infrastructure. For instance, the first four leading counties in terms of HDI (i.e. Nairobi, Nyeri, Uasin Gishu and Kericho) have a higher number of primary and secondary schools compared to the counties of Turkana, Mandera, Tana River and Wajir, which are ranked last in terms of HDI. Nairobi, Nyeri and Uasin Gishu counties have 197, 467 and 391 primary schools, respectively, compared to 188, 105 and 82 for Turkana, Mandera and Tana River counties, respectively (Annex Table 16.1). This has implication on the growth of skills in these counties and affects the level of productivity, innovation and competitiveness of the respective region. In such counties, the level of human capital would be lower compared to counties such as Kiambu and Kakamega with 209 and 202 secondary schools, respectively. The number of schools affects access and availability of education.

The education sector plays a key role in providing the required knowledge, skills and attitudes necessary for the growth and competitiveness of any county. Education sector programmes such as free primary education and free day secondary education have been geared towards improving efficiency in the core service delivery of providing accessible, equitable and quality education and training. The outcome of this will, however, depend on how the counties will exploit such an opportunity.

There is weak balance between quality (education outcomes) and quantity of schooling (access levels). There is a high level of wastage across levels and unsatisfactory progression. The rising cost of schooling on the part of households has negatively impacted on household demand for schooling. Therefore, the extent to which counties will shield households from the direct and indirect costs of schooling will determine the extent of access to schooling in the different counties.

16.4.4 Conclusion and Recommendations

The level of human development varies across counties due to the different levels of achievement in health and skills development. To enhance competitiveness, there is need to increase both health and education infrastructure, improve the quality of the services offered in health and education facilities and, above all, improve the road infrastructure for easier access to the facilities. Thus, counties need to mobilize all children to enrol in schools and strive to improve the quality of education. In health, promotion of nutrition is key and should be enhanced through provision of Vitamin A supplements for children, increased access to vaccination and immunization against preventable diseases, and equipping primary health facilities (which is one of the key responsibilities of the county governments) with the necessary drugs and supplies. These measures will go a long way in promoting human capital for the counties.

16.5 Investing in Infrastructure for Competitive and Sustainable Counties

16.5.1 Water

It is crucial to understand the key policy issues in this sub-sector in order to guide the process, strategies and criteria for coming up with workable solutions. An overview of the sub-sector has exposed the following key policy issues:

- Vast spatial disparity in access to improved water and sanitation services, with rural areas (67% of Kenyans) not having any organized Water Service Providers (WSPs).
- Small share of central government spending on the water and sanitation sector (1% of GDP).
- Weak accounting and spending both out of off-budget financing through Semi-Autonomous Government Agencies (SAGAs) and the usual budgetary allocations.
- Challenges of financial sustainability facing Water Service Boards and Water Service Providers, such that full cost recovery on management, operations and maintenance has largely been out of reach, with over 70 per cent of WSPs not being able to recover their operation and maintenance costs. It has been established that underpricing of water services is a key concern, exacting a significant financial burden on Kenya of about 0.2 per cent of GDP. The Africa Infrastructure Diagnostic studies estimate that in Kenya, the average total cost of producing utility water is US$ 0.99/cubic meter, but the average effective tariff is only US$ 0.58, such that only operation and maintenance costs can be catered for, but not capital investment.
- As a water-scarce nation, Kenya needs to augment her water storage capacity beyond 124 cubic meters per capita (World Bank, 2010).
- Cultivated area under irrigation is barely 2 per cent or about 1000 km^2. Studies have suggested that it would be economically viable to irrigate a further 550 km^2, especially if water supply infrastructure is extended downstream of dams and small-scale irrigation expanded.

Against this background, it is critical to determine where and how off-budget funds through SAGAs are utilized, and the extent to which these funds get absorbed into the system and in line with sector priorities.

Reforms in the water sector have mainly focused on promoting rainwater harvesting, drilling boreholes, protecting shallow wells and springs, construction of dams and pans, rehabilitation and expansion of utilities, and reduction of unaccounted-for water.

16.5.1.1 Institutions management and regulatory measures to be pursued to ensure efficiency in water and sanitation service delivery at county level

Under the Constitution of Kenya 2010, the sector will undergo further reforms once more. Counties will be responsible for storm-water management systems in built-up areas and water and sanitation services. The national government will be responsible for the use of international water resources and water resources management. The Constitution, under economic and social rights, formally recognizes the human right to adequate sanitation and access to water in the right quantity, quality and price – with sustainability. Catchment protection and water service delivery will be a collective assignment of the government ministry in charge of water, the Land Commission and county governments. The ministry responsible for water and irrigation has established a taskforce charged with aligning the Water Act 2002 with the Constitution and has initiated the preparation of a National Water Policy (2012).

Water is a strategic resource with important social and economic qualities useful for production, improved public health as well as a sustainable and resilient environment. However, the increasing and competing demand both in terms of quality and quantity emphasizes its economic value more than the social value. Thus, effective water resource management is required to even out a balance between the two. The requisite governance structure must, therefore, recognize water as a social Common Pool Resource (CPR), and an economic good, in addition to fulfilling constitutional requirements.

Water and sanitation services (WSS) are essential in sustaining socio-economic growth by opening up opportunities for households and entrepreneurs. Sanitation is closely related to human welfare with serious health implications. Densely populated informal settlements, in particular, have poor sanitation facilities as a result of high migration to urban and peri-urban areas. Water quality for domestic use and irrigation is, in addition, compromised due to dumping of waste (both industrial and chemical) into rivers and other water bodies. Potable water must be strategically planned for to ensure that no person, regardless of the county of residence, is deprived. The process is expensive since WSS infrastructure must be extensive to reach more people, and is also capital intensive.

Kenya is largely food insecure, yet there exists high irrigation potential that is untapped. In the budget 2011/12, the government recognized this and allocated Ksh 8 billion to finance irrigation projects. Similarly, financing of basic services, including water, roads and electricity were accorded a first priority in expending the equalization fund in 2011/12. The Constituency Development Fund (CDF) has also been used in financing water projects throughout the country.

Examined broadly, Kenya can gain much from better coordination and management of the water resources shared with neighbouring countries, which constitute more than 50 per cent of her water resources. The Nile Basin Initiative (NBI) offers one big opportunity for strengthening regional coordination and management of trans-boundary water resources, including flood waters.

In order to achieve efficiency gains in the water sub-sector, the following interventions are recommended:

- Taking measures to reduce water distribution losses that are in excess of 40 per cent for Kenya against 33 per cent for other African low-income countries.

- Taking measures to improve cost recovery.

- Taking measures to increase the share of budgeted funds that is actually spent as well as ensuring efficient utilization of allocated funds (averting the low capital-budget execution rate typical of Kenya's infrastructure projects).

In terms of access to improved water sources, there is real need to prioritize the deprived regions – rural areas in particular. To improve the overall planning for increased access to improved water sources, an agency dedicated to rural areas, a well-managed spatial database, and regular mapping of service levels are key requirements. Standards of reference for measuring access to water supply and sanitation need to be updated and harmonized for countrywide, urban and rural assessment of service levels. The definition of urban and rural areas is one example that communicates the urgent need for standardization in terms of character and population density. Expenditure analysis by administrative units is also hampered by the dearth of disaggregated data and the mode of allocation of funds from the central government, which is dispatched to catchment-based government agencies and not administrative districts.

Gaps in data and statistics need to be closed by conducting more frequent field surveys and using the technical arms of the ministry responsible for water and irrigation to help capture the crucial aspects of quality, quantity, spatial metrics and service sustainability. These aspects are not covered in the limited decadal census data. The review shows that study of access to water supply and sanitation needs a more rigorous technical approach than is currently the case. Time-related factors and how they affect sustainability of the services need to be captured in the sector surveys. Equally important is the mapping of spatial variations in service levels.

Bodies that will be responsible for the planning and delivery of water and sanitation services in counties under the Constitution of Kenya (2010) will need to place greater emphasis on rural access. This calls for innovative measures that utilize local endowments such as labour abundance, cheap building materials and spaces that can accommodate improved communal water and sanitation infrastructure.

16.5.2 Roads

The roads sub-sector is experiencing various challenges that affect efficient and economical road transport. These include political interference in project implementation as well as mismatch in resource allocation required for a reliable road network in the country. Nationally, there is serious inequality in terms of road infrastructure. Another challenge has been inadequate plant and equipment under the mechanical and transport fund to meet the ever-increasing demand. The reduction of maintenance funds for class D, E and other roads to 10 per cent and the eventual equal distribution of the same to all the constituencies have led to inadequate funding in the sub-sector. There has also been a huge maintenance backlog of the road network, which has reduced the uptake of new projects. Attracting private sector funding to supplement government allocation has also proved challenging. Other challenges witnessed in the sub-sector include lack of adequate local construction capacity, leading to poor project execution and dependence on foreign firms; encroachment of road reserves by private developers leading to delays in project implementation; and poor enforcement of the axle load limits, which has led to increased deterioration of road conditions.

16.5.2.1 Institutional management and regulatory measures for efficiency in the roads sub-sector at county level

The national and county governments will play important roles in the development of the roads sub-sector. The Constitution provides that the national government is responsible for transport and communications, in particular road traffic; the construction and operation of national trunk roads and setting standards for the construction and maintenance of other roads by counties. On the other hand, the county governments are responsible for county transport, including county roads. This being the case, it is clearly demonstrated that the national and county governments will have to work together to develop a coherent and well coordinated framework to ensure efficiency in the roads sub-sector. Further cooperation will be necessary in:

- Securing foreign and domestic funding for road construction.
- Integrating national and county road networks.
- Revenue collection and disbursement from the roads sub-sector.
- Negotiating and contracting under PPP arrangements.
- Facilitating spatial equity in road network development.
- Creation of space for roads through national and county plans.

Inter-county cooperation will also be vital in ensuring that uniform and continuous road networks are deployed across the counties. The objective will be to ensure that road standards and conditions are similar in neighbouring counties.

It is noteworthy that the ministry responsible for roads has already embarked on restructuring the roads sub-sector in line with the Constitution. The ministry has prepared a Draft Policy on Aligning the Roads Sub-Sector with the Constitution (Government of Kenya, 2012). According to this Policy, the current institutional framework will be restructured leading to the creation of a State Department responsible for policy and setting of standards and specifications within the sub-sector. It will also be responsible for collection, analysis and forecasting of road traffic data as well as master planning. The Policy further provides for the creation of the Kenya National Trunk Roads Authority (KENTRA), which shall be a national government body responsible for national trunk roads and capacity building and technical assistance to counties. A roads fund shall be created with the mandate to source and manage construction, operation and maintenance funds for the sub-sector, except funds from the exchequer. It shall serve both levels of government. County roads will be transferred to the county governments and it is envisaged that county roads' establishments will be created to manage these roads.

16.6 Land Adjudication and Investment in Counties

16.6.1 Background

Land is every nation's most valuable asset, since it plays a significant role in promoting social, economic and political development. Thus, getting land rights institutions correct is the most compelling policy to resolve because property rights affect the way in which other policies will work on land. As Kenya devolves into counties, the land question remains a major challenge that needs to be tackled to promote investment in the counties. According to the National Land Policy (2009), investments in land-related ventures are important avenues for creating wealth for local communities. The Policy recommends creation of land banks for investment in industry and housing programmes, provision of serviced land for housing development for the poor, establishment of a framework for auditing all land based on local and foreign investment proposals to ensure that they are aligned with national food security needs, protection of land rights of indigenous people and communities, acquisition of land for strategic public ventures such as sea ports, airports, and research facilities for purposes of security and planning, ensuring that land is accessible to auxiliary developers only through sub-leases, and compulsorily acquiring all land on which mineral resources have been discovered before allocating such land to interested investors in order to facilitate fast access to the land and to prevent the exploitation of local communities, environmental degradation and ensuring restoration of land after exploitation.

Despite the above recommendations by the National Land Policy, there is inadequate public land for investments in the counties, and there are still challenges in land management in the country and in the counties that may hinder fast investment. The challenges include: a bureaucratic and centralized land registration process that makes it costly; inequality in land holdings in the counties with large portions of land being held by a few people, while others are landless or hold uneconomical sizes; land grabbing of public land and informally-owned land that has led to land clashes; gender disparity in land ownership where women are disadvantaged; uncontrolled uneconomical sub-divisions; unplanned rapid urbanization; inadequate land use planning; unsustainable agricultural production; poor environmental management and inappropriate ecosystem protection.

According to the World Bank (2012), Kenya is ranked number 161 out of 184 economies in the steps, time and cost involved in registering property. The time taken in registering property in Kenya is longer than in any other East African country, with Tanzania, Uganda and Rwanda ranked 137th, 124th, and 63rd, respectively. In the number of procedures involved, Uganda has the most procedures (12), followed by Kenya (9) and out of the 4 countries in East Africa, Rwanda is the best with only 5 procedures. On the cost of registering land, Uganda charges 1.9 per cent of the value of the property followed by Kenya and Tanzania that charge 4.3 per cent and 4.4 per cent of the value of the property, respectively. Rwanda charges the highest cost of 5.6 per cent.

Land registration as a prerequisite for land tenure is, therefore, critical in promoting investment in the counties. The fact that over 60 per cent of the rural population in Kenya relies on agriculture for their livelihood and income makes land tenure even more important. The recent surges in investor interest in Africa in agriculture, mineral resources and tourism demand for land tenure security mean that potential investors need to be sure of reaping the full benefits of land deals and investment, while local communities need protection and full compensation for their land rights. The conflicts arising in Turkana where oil was discovered, and the ongoing case of titanium mining in Kwale (the matter is in court over compensation for environmental pollution) merely amplify the need for clear land rights. It is against these challenges that land registration is assumed to minimize such land conflicts. Land registration removes the uncertainty on who is to benefit from the use of the land. It also motivates the owner or the county to conserve the resource if it benefits the individual/county and creates incentives for the owners to invest more on the land due to the security of tenure. Land registration also gives the owners the confidence to lease out their land to the best investors, since they are guaranteed their land when they are able to utilize it. This is unlike unregistered land where the leased person can acquire ownership status through registration as the first owner.

It is, however, important to note that demand for land registration may vary among counties/individuals since it depends on how much they value security, which in turn depends on factors such as land use, land scarcity (population density), degree of overall economic development and the efficacy of informal land rights systems. This also influences the type of land registration to be implemented in the counties, whether individual or group registrations but those that will promote the appropriate land use in the area. Past studies have noted that land registration is less important when land is abundant, but becomes critical as demand increases due to population growth, which can affect food production as well as the social and political fabric of the nation.

The ongoing reforms occasioned by the Constitution of Kenya (2010), Vision 2030 and the National Land Policy (2009) have emphasized land registration. According to Vision 2030, the land adjudication process has slowed down due to pending land and boundary disputes; it emphasizes the implementation of the National Land Policy to address the challenge. The Land Registration Act 2012 is one of the statutes that has been formulated in line with the implementation of the National Land Policy. Registration applies to all public land as declared by Article 62 of the Constitution; recording of community interests in land as declared by Article 63 of the Constitution; and to all community land as declared by Article 64 of the Constitution

Land adjudication in Kenya, which entails ascertaining and recording rights and interests in land claimed by individuals on customarily-owned land, has been ongoing for the last 50 years. It involves the replacement of the informal land rights with formal, legal rights and is applicable to land that is vested under the local authorities on behalf of the community under the Trust Land Act. The land adjudication process is lengthy and costly. Disputes have arisen based on the criteria of determining the beneficiaries (Smucker, 2002). Land conflicts have been witnessed during adjudication whenever the beneficiaries have to be moved from the land they had invested in. This has also been a discouragement to those holding the land informally awaiting adjudication to invest largely on the same because they are not assured of retaining the same portion of land after adjudication. Informal land ownership also leads to low investment due to the fear of corruption during adjudication, where land is allocated to the elites and those in power, sometimes in total disregard of the local residents. Examples of such situations were cited in the Ndung'u Report of the Commission of Inquiry into Illegal/Irregular Allocation of Public Land (Government of Kenya, 2004) where chunks of trust land were grabbed by non-residents. They included 61 parcels in Embu County, 93 in Meru County, 61 in Nakuru County, and 49 in Kiambu County, among others. A study on the land adjudication process in Tharaka (Smuckers, 2002) also noted that the residents supported the registration process out of perceived need to protect land from expropriations by the elites. Thus, registration creates security of land rights, which creates the incentives to invest.

Land registration has also been associated with poverty. Vision 2030 notes that delay in land adjudication "has contributed to increasing poverty among some communities". Kieyah and Nyaga (2010), on their study on effects of land titling on poverty, found that ownership of titled land is positively correlated with poverty, where households with titled land have a higher consumption than those with unregistered land. A comparison of poverty levels in various counties based on the date of adjudication revealed some consistency with high poverty level in areas where most of the land is not yet adjudicated compared to areas where land adjudication has been completed. Though land adjudication may not be the only cause of the high poverty levels in these regions, it is a significant factor that should be addressed to create incentives to land owners and promote economic development that would reduce the poverty in the areas.

Land registration reduces the potential for land conflicts, which are ignited by feelings of land insecurity whenever residents feel cheated by the land registration system. Land disputes also result from undefined boundaries. Land conflicts/disputes deter land investments either due to the fear of destruction of the investments during the conflicts or disputes, as witnessed in the Kenyan post-election conflicts in 2007. Such fear, especially during elections in Kenya, discourages agricultural investments and increases food insecurity in the country. In support of the above assumptions, the study in Tharaka Constituency on land adjudication found that land registration led to increase in investment in soil conservation through adoption of stone bunds, tree and shrub planting, and use of manure to increase soil fertility (Smuckers, 2002). In Kajiado, frequent land conflicts were associated with informal land ownership, and the study recommended land adjudication to minimize the conflicts (Rita, 1980). The land conflicts resulting from the discovery of oil in Turkana and tiomin in Kwale are also a result of informal land ownership, where residents fear that after dispossession they will end up with little or no compensation since their land ownership is not ascertained. Apart from the land disputes, the slow process in land adjudication has been associated with costly adjudication process, inadequate technical staff, lengthy legal procedures, lack of political goodwill, and bureaucracy in the land registration process that provides loopholes to corruption.

There is an indication that land registration has an impact on land investment given that land insecurity has been associated with low economic development, poverty and land conflicts/disputes that lower incentives for residents and investors. The Constitution, the National Land Policy (2009) and the National Land Commission Act 2012 have recognized land registration as a prerequisite to development, but the question remains on how to fast-track the registration process.

The Kenyan government can fast-track the land adjudication/registration process by adopting low-cost methods of registration and use of unskilled labour. Ethiopia, Rwanda and Madagascar have adopted such methods and have registered 20 million parcels within three years (2003-2005), 10.5 million land parcels in less than five years, and about 75,000 parcels of land in 3 years, respectively. These methodologies record evidence of ownership rather than a traditional boundary survey; they include remote sensing and GIS methodologies, recordings of verbal description of boundary or video of boundary. These methods are more inclusive and can be upgraded when appropriate. The methodologies are likely to be cheaper and faster forms of survey and registration of land. Kenya can learn from countries that have managed to carry out land registration cheaply within a short period using such methods, among them Ethiopia, Rwanda and Madagascar. Borrowing from these examples, Kenya can fast-track the registration process and, in so doing, create security of tenure and confidence that would stimulate investments not only in counties, but also nationwide.

Secondly, the land adjudication process needs to be holistically implemented through involvement of other stakeholders such as planners and service providers. By so doing, land will be provided for public utilities and set aside for suitable purposes in the counties. It is during this process that planners and other stakeholders can identify the land that can be acquired by the government for housing developments, and land banked for future investments.

Lastly, the Constitution and the National Land Policy recommendations for devolution of land administration and management to the counties need to be implemented. Unlike the current centralized land management system, which is lengthy, bureaucratic and costly, management of land at the counties will promote easy access to land for investors, since it will reduce land transaction costs and will be locally available.

16.7 Creating an Enabling Environment for Investment in Micro, Small and Medium Enterprises

16.7.1 Introduction

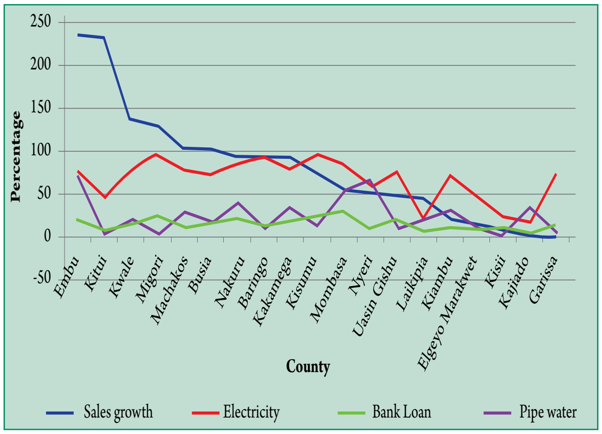
Micro, Small and Medium Enterprises (MSMEs), defined as firms employing less than 100 employees, form a large part of private sector enterprises in Kenya. It was estimated in the last national survey of the sector carried out in 1999 that Kenya had a total of 1.3 million MSMEs employing 2.3 million people. It was further estimated that Small and Medium Enterprises (SMEs), defined as firms employing 10-99 employees, accountee for 75 per cent of total employment in Kenya but contributed only 18 per cent of GDP (Government of Kenya, 2007). The Constitution of Kenya assigns county governments trade development and regulation functions, including markets, trade licences, fair trading practices, local tourism and cooperative societies. In conjunction with other devolved functions such as agriculture, county public works and planning, county governments will play critical roles in MSME sector growth.

Due to the large share of enterprises, MSMEs form the base for private-sector-led growth, and deliberate policy efforts have often targeted the sector in developing countries as an engine of employment and growth. MSMEs act as a catalyst for entrepreneurial seedbed for industrial transformation (McPherson, 1996). Kenya Vision 2030 recognizes the sector and envisages MSMEs' improved productivity and innovation by enhancing the investment climate, including access to finance. Policy efforts targeted at the MSME sector are anchored on the premises that MSMEs are the engine of growth, but market imperfections and institutional weaknesses impede their growth (Beck and Demirguc-Kunt, 2006). Under the devolved governance structure, MSMEs are not only significant in employment creation but also in revenue generation for the county governments in form of service fees. Single business permit fees will form a significant source of own revenues for county governments, which will be used for delivery of county services. During the 2009/10 fiscal year, single business permit fees amounted to Ksh 2.9 billion, accounting for 17 per cent of local government own revenues (Government of Kenya, 2010).

The role of MSMEs can only be maximized by mitigating growth constraints resulting mainly from adverse investment climate, poor infrastructure, credit constraints, insecurity and regulatory burden. Various empirical studies have established that an adverse investment climate, including weak property rights protection, stringent regulatory frameworks, poor infrastructure and lack or limited access to credit, constrains MSME investment and growth. For example, using cross-country data of 80 countries, Ayyagari et al. (2005) found that crime incidences and political instability negatively affect firm investment and growth.

A study by KIPPRA (KIPPRA and Ernst and Young, 2008) established that being in an industrial location, access to electricity, lower incidences of insecurity, access to bank loans and positive perceptions of the entrepreneur regarding the courts in terms of affordability and fairness positively affect firm growth. The study used the MSME Competitive Project Baseline Survey 2008 data collected by KIPPRA. The data set comprised of 2,590 MSMEs in 19 counties. Figure 16.9 shows average investment climate indicators across 19 counties. As shown in Figure 16.9, there exists a positive correlation between sales growth and access to electricity, bank loans and piped water.

Figure 16.9: Sales growth vs percentage of MSMEs with access to electricity, bank loans and piped water

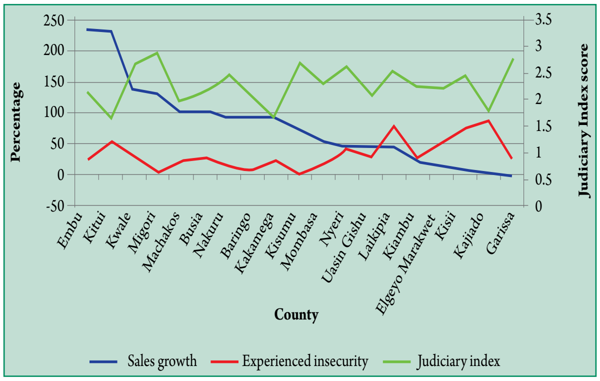


Source: KIPPRA 2007 MSME Baseline Survey

Figure 16.10, on the other hand, shows a negative correlation between MSME growth and adverse perception of courts in dealing with business disputes. Insecurity incidences also show negative correlation with MSME growth across the counties.

The KIPPRA study also reviewed the factors affecting the growth of MSMEs in Kenya by analyzing sales growth between 2004 and 2007 for the sampled firms, as a proxy for firm growth. Controlling for firm and owner characteristics, the regression results show that being in an industrial location, availability of bank credit and access to piped water and electricity positively affect MSME growth. Insecurity and increase in negative perception of the fairness, cost and efficiency of courts adversely affect MSME growth.

Figure 16.10: Average sales growth vs percentage of MSMEs that have not experienced insecurity incidences and average perception of the judicial system



Source: KIPPRA (2007), MSME Baseline Survey

These findings suggest that policy efforts aimed at promoting a conducive investment climate at county level are vital for MSME growth. Investment climate indicators, including access to bank credit, piped water, electricity, crime incidences and negative perception of the courts in dealing with business disputes vary across counties and positively affect MSME growth. These results are consistent with the larger literature on the importance of access to bank credit, quality institutions and infrastructure for firm investment and growth. The study recommends that county governments should:

- Provide adequate funds for upgrading and maintenance of infrastructure: county roads, piped water and electricity reticulation. Moreover, Schedule Four of the Constitution assigns the county transport function to county governments, including county road transport and other planning and development activities such as housing and electricity reticulation, water and sanitation services.

- Complement the national government in enhancing security, for example through community policing and discouraging activities that may cause ethnic violence. Ethnic violence can be as a result of unequal resource distribution.

- Foster development of industrial clustering. The Constitution assigns trade development and regulation, land survey and mapping, county infrastructure and public works to county governments. County governments can attract private investment through infrastructure development.

- Consider creating funds for lending to MSMEs to mitigate credit constraints and boost investment and growth. County governments may also consider attracting financial institutions by investing in infrastructure and mitigating crime incidences.

16.8 Stimulating and Sustaining Tourism Investments in the Counties

16.8.1 Increasing participation in tourism at county and community levels

The concentration of tourism investment on a few accessible parks and reserves and coastal beaches over the years may have lessened the quality and appeal of Kenya's wildlife tourism product to international tourists. Therefore, spatial devolution of infrastructure development funds to the counties can help improve access to tourist attraction sites and protect wildlife and ecosystems from damage by too many visitors, while helping to strengthen the economic performance of the tourism sector. This would also help to distribute tourism-related costs and benefits more evenly across the country (WRI, 2007).

Improving spatial diversification of visitors requires increased and sustained investments in the transport system, safe water supplies, communications services, tourist accommodations, protected areas and targeted marketing efforts. In addition, it requires greater control and participation of counties and local communities in wildlife management and tourism enterprises.

Below are examples of selected areas within the counties with tourism potential that could be opened up through the ongoing infrastructural investment projects across the country:

The LAPSSET Project: The area surrounding Lamu has great tourism potential due to the rich attractions such as beautiful beaches, coral reefs, mangrove forests and wildlife viewing–including the endangered sable antelope. The recently-launched Lamu Port-Southern Sudan-Ethiopia Transport (LAPSSET) project, a Vision 2030 flagship investment project, will help this area capture a greater share of the national tourism receipts. The project will enhance commerce in all counties along the corridor by cutting down transport time and costs. The proposed Lamu-Lodwar road also passes through Isiolo County, where the proposed resort city and an international airport are to be constructed. These, together with the Isiolo-Moyale road, will unlock tourism potential in the northern counties.

Samburu National Park and the surrounding Laikipia ecosystem, including Meru National Park and the northern slopes of Mount Kenya: Samburu is among the least visited of Kenya's national parks in spite of the fact that the area contains a great diversity of wildlife. It contains the largest elephant population outside of the Tsavo National Parks; half of Kenya's rhino population; and the only herd of Jackson's hartebeest, a threatened antelope (Laikipia Wildlife Forum, 2006). The ongoing upgrading of the Isiolo-Marsabit road to tarmac status, together with the proposed development of a tourism resort city at Isiolo, will open up the Samburu-Laikipia ecosystem as an alternative destination and a leader in ecotourism and home-stay tourism in Kenya.

Overall, there is need to build the capacity of county governments (working with the national government) to exploit various tourism resources. The county governments should support development of unique tourism products and tourism marketing strategies to promote their ecosystems and other resources both domestically and internationally. In all cases, great care should be taken to ensure that development of tourism infrastructure does not undermine the integrity of ecosystems, and that stakeholders in each area are consulted to avoid potential resource conflicts.

County governments will play a key role in enabling local communities to establish small-scale enterprises designed to benefit from tourism activities, resources and facilities (infrastructure) in the county. Cultural home-stays, ecotourism and youth enterprises could form some of the economic activities that community groups may benefit from at county level. A number of counties have suitable resources that can support sustainable ecotourism activities (ESOK, 2005).

16.8.2 Tourism institutions at county level

Consistent with the Tourism Act 2011 and the Kenyan Constitution, there is need to devolve tourism institutions to the counties as a first step in transforming counties into sustainable centres of tourism development. County-level tourism institutions may be considered, including the following:

Table 16.6: County-level tourism institutions

Proposed Institution / Office	Proposed Roles
Tourism regulatory, development and marketing	• Develop a county tourism strategic plan, and monitor its implementation • Marketing and investment coordination with the private sector • Promotion of domestic/inter-county tourism

County tourist police unit	• Kenya Tourism Protection Services • Ensure security of tourists at county level
County wildlife/ conservation office	• Conserve and manage national game reserves, provisional wildlife conservation areas, and sanctuaries under its jurisdiction • Collaborate with county governments, communities and landowners for purposes of effective conservation and management of wildlife conservancies and sanctuaries • Prepare and implement integrated management plans for national parks, provisional wildlife conservation areas, national reserves and sanctuaries under its jurisdiction • Establish wildlife conservation areas and committees • Assist communities and land owners to set aside critical wildlife habitats, corridors and dispersal areas for the conservation and management of wildlife within the county • Manage and minimize human-wildlife conflict while enabling communities to exploit and gain from the tourism resource endowment at the local level.

The tourism research and development function need not be devolved to the counties, but can remain the mandate of the proposed Tourism Research Institute, among other functions including tourism/hospitality training; research, monitoring and evaluation; product development and branding – leveraging existing resources; and establishing a tourism information system.

In addition, there need not be a specialized tourism fund and/or financial institution at county level, but rather coordination offices affiliated to the proposed Kenya Tourism Fund and the Kenya Tourism Finance Corporation at the national level. The county-level offices will appraise fund applicants and provide links to credit to fund tourism enterprises.

16.9 Promotion of Wholesale and Retail Trade in Counties

Domestic trade is crucial for development in Kenya. Wholesale and retail trade form a significant component of domestic trade and contributes about 10 per cent of GDP. It is also a major source of formal and informal employment. Lack of consistent and credible data on wholesale and retail trade in Kenya limits analysis of this sub-sector, more so at county level. In order to circumvent this problem, we have used the growth of supermarkets as a proxy for growth in wholesale and retail trade. Available literature suggests that supermarkets in Kenya have grown at a very high rate in the last decade. At the county level, the expansion of supermarkets is expected to stimulate investments in construction and property development and trade values within the county.

In order to stimulate investments at the county level, wholesale and retail trade must embrace efficiency of supermarkets, distribution channels and infrastructural support.

16.9.1 Efficiency of supermarkets

Theoretically, economic efficiency is achieved when consumers pay prices that ensure value for money. The fewer the transactions a consumer has to go through, the higher the level of efficiency. Wholesale and retail supermarkets improve efficiency in distribution by encouraging competition, lower prices, market information and stocking of many goods compared to ordinary shops. Their role reduces per unit marketing costs, promotes stable markets for local produce, and encourages increased output and productivity. Supermarkets basically have to perform the following three functions cost-effectively: physical exchange of products; standardization of products in terms of weights, measures and quality; and exchange of information between suppliers and buyers.

The fundamental objective of wholesale markets is to improve efficiency in the distribution channels at county level. By centralizing transactions at a single location, reducing the period for transactions, and separating wholesale and retail functions in the distribution system, supermarkets promote greater transparency and better price formation through a clearer interplay of supply and demand. Enhanced storage and handling conditions increase distribution efficiency in the domestic trade. County governments need to streamline investment incentives for supermarkets at county levels.

16.9.2 Distribution of supermarkets

Supermarkets are becoming increasingly important as distribution channels for final consumer products in urban centres, sub-urban centres and rural towns in Kenya. It is, however, difficult to ascertain the percentage market share they command. They play an important role in the economy because they are able to establish lasting relationships with actors such as manufacturers, and thus reduce the number of intermediaries between producers and final consumers. By reducing the length of the chain, the final buyers can pay relatively lower prices compared to a situation where there are many intermediaries in between. The line of difference between wholesalers and retailers is very small; this is because supermarkets also break the bulk, just like the small shop operators.

As is the case in other parts of the world, supermarkets are mainly found in major urban centres in Kenya such as Nairobi, Mombasa, Kisumu, Eldoret, Nyeri and Nakuru, among other upcoming towns. This can be anticipated because in these towns there are a large number of middle-income earners with requisite purchasing power. There are also instances when these supermarkets are located in areas where the higher income groups reside. One can easily conclude that the main determinant of where they will be located is the income level, as that will determine the sales they are likely to make.

The trend that supermarkets will most likely be located in major urban centres and with large populations is unlikely to change with the formation of counties. Other important factors that will determine where they will be located is the physical infrastructure, such as the availability of roads, water and electricity and ICT. Demand-side and supply-side factors have been attributed to the rise and diffusion of supermarkets in developing countries (Reardon and Gulati, 2008). Demand-side factors include: incomes, urbanization, the opportunity cost of women's time and other enabling conditions. Supply-side factors include: procurement system, modernization and massive retail FDI, as well as massive competitive domestic retail investment.

16.9.3 Infrastructural development

Infrastructural development is key to attracting investment in the counties. As pointed out in Vision 2030, the trade sector in Kenya is characterized by inefficiencies along the supply chain from producer to consumer and from importer to the final buyer. This is largely due to the poor state of roads, drainage and water supply, inadequate power supply, poor transportation and communication system, handling and storage facilities and wastage and waste disposal systems. In addition, there are limited and poorly-designed markets and lack of housing facilities with enough loading bays and parking spaces. In addressing some of these challenges in order to facilitate commerce, trade and rural enterprise development, the Ministry of Finance in the 2009/10 budget launched the Economic Stimulus Programme (ESP). Under this programme, the government through the Ministry of Local Governments was to support the construction of markets in the country's 210 constituencies. The success of this project is crucial because it opens the opportunity to link producers and consumers in every constituency within a county. Good infrastructure will also go a long way in linking the counties with surplus production with those with scarcity.

16.9.4 Business registration

In order to attract investment in the wholesale and retail trade in the counties, registration of businesses needs to be made easy. Currently, the licensing of the wholesale and retail business is done by the Ministry of Local Governments through issuance of a Single Business Permit under Section 163 of Cap 265 of the Local Government Act. The Single Business Permit is issued by local authorities and allows for the distribution of goods and services within the area of local authority. However, the County Government Bill 2012 gives powers to the county governments to make laws and regulations to give effect to tariff and pricing policies. In addition, the National Trade Development Bill 2012 proposes the establishment of the Domestic Trade Directorate, which will be responsible for the formulation and implementation of policies and measures aimed at improving the business environment for the development of domestic trade. The Directorate will be responsible for the promotion and harmonization of all laws and regulations governing trade licensing and regulation, and coordination of all institutions and agencies responsible for trade licensing and regulation. This, in effect, means that the Single Business Permit may be reviewed with coming into force of the two bills.

16.9.5 Business development

The Ministry of Trade is responsible for the promotion of retail and wholesale trade according to the Presidential Circular No.1/2008. The ministry is responsible for promotion of business through the Kenya National Trading Corporation (KNTC), Assistance to Micro and Small Enterprises Programme (ASMEP) and Joint Loans Board (JLB) among other institutions. The KNTC's major objectives are to develop small and micro enterprises (SMEs) markets, expand and diversify trade, and improve and strengthen the supply chain and distribution systems. On the other hand, the JLB seeks to promote small-scale enterprises through provision of affordable credit of between Ksh 20,000 and Ksh 100,000.

16.10 Opportunities for Investing in the Forestry Sector

The Forest Act 2005 provides for incentives to be offered to encourage new planting and improved management for industrial and farm forestry. For example, the Act provides for a person who establishes or owns a private forest to apply to the relevant authority for exemption from all or part of the land rents and such other charges as may be levied in respect of the land on which the forest is established.

Besides the Forest Act 2005, the Environment Management and Coordination Act (EMCA) 1999 under section 57 provides for the Minister of Finance to put in place government tax and other fiscal incentives, disincentives or fees to induce or promote the proper management of the environment and natural resources or the prevention or abatement of environmental degradation. In this regard, investment in the forestry sector by saw millers, which aims to enhance transfer and use of modern, efficient and environmentally friendly technologies would benefit from such tax and fiscal incentives. Furthermore, EMCA provides for the "User-Pays Principle" as part of national pricing policies for natural resources aimed at economizing on the use of resources.

It is evident that the forestry sector plays a key role in the Kenyan economy, since wood fuel and charcoal represent more than 75 per cent of domestic energy. Over 90 per cent of rural households use firewood for cooking and heating, while 80 per cent of urban households depend on charcoal as a primary fuel source (Energy for Sustainable Development Africa - ESDA, 2005). Besides, the regulating services of Kenya's natural ecosystems are important production factors in the agriculture, forestry and fishing sectors, the electricity and water sectors, and in public administration. These sectors, together, contributed between 33 per cent and 39 per cent of GDP between 2000 and 2010. In addition, these sectors have a very significant multiplier effect on the rest of the economy's GDP.

Given the immense contribution of the sector to GDP, and the potential for private investors, it is important to put in place measures that will encourage the private sector to invest in forestry, given the incentive-based approaches for forests conservation that have emerged over the last 10 to 15 years. The most high profile of such initiatives is the Payment for Ecosystem Services (PES), which pay forest landowners for providing watershed protection, carbon storage, recreation, biodiversity, etc. There are also Reducing Emissions from Deforestation and Forest Degradation (REDD) schemes, efforts to create financial value for the carbon stored in forests, offering incentives for developing countries to reduce emissions from forested lands and invest in low-carbon paths to sustainable development and "REDD+", which goes beyond deforestation and forest degradation, and includes the role of conservation, sustainable management of forests and enhancement of forest carbon stocks. Regrettably, due to the public nature of some forest ecosystem services, the private sector and holders of forested land are not always able to perceive sufficient incentives to make investments in forests, even if such investments often involve a positive rate of return for society as a whole. Investment by the public sector will be needed in some cases to provide forest ecosystem services directly, provide financial incentives to the private sector to make investment competitive and to prevent unsustainable forest management. Thus, there are promising investment opportunities in the forest-rich counties, such as certification of sustainable forest management, targets to increase protected areas and the growing momentum of PES.

Although acknowledged that not all counties have forest resources, those counties covered by natural and man-made forests should take advantage of available investment opportunities that can be targeted by both the public and private sector in reversing the loss of forested area. The private sector could invest in eco-tourism, as well as paying landowners to protect watersheds, create private nature reserves, improve management of planted forests, improve management of agro-forestry systems and extend the area with agro-forestry systems. On the other hand, the public sector could create new protected areas, improve enforcement of protected areas, buy out logging concessions, support establishment of certification systems, control illegal logging, provide incentives for reforestation/afforestation and pay forest landholders to conserve forests.

Overall, there are great opportunities for the private sector to invest in the forestry sector in forest-rich counties. Given that various counties have created the Department of Environment in their county structures, protection of the environment will be a key priority, and engagement of the private sector will be very crucial in achieving this objective. The incentives exist in different types of forests as illustrated below.

16.10.1 Indigenous forests

Kenya's indigenous forests represent some of the most diverse ecosystems found anywhere in the world. These forests supply important economic, environmental, recreational, scientific, social, cultural and spiritual benefits. However, some of these forests have been subjected to land use changes, such as conversion to farmlands, ranches and settlements. This has reduced the ability of these forests to supply forest products, serve as water catchments, biodiversity conservation reservoirs, wildlife habitats and carbon sinks. Sustainably-managed indigenous forests can supply goods and services to meet the demand of the growing population. Revenues accrued through commercial forest activities can be used to support the management and conservation of indigenous forests.

Table 16.7: Summary of existing incentives for investment in the forestry sector

Type of incentive	Brief description of the incentive	Source and period	Target group	Outcomes/impacts and shortcoming
Policy and land/tree tenure reforms	PFM involving local communities in decision-making and the management of public forest plantations	Forest Act 2005 Forest Policy 2007 The EMCA 1999 Continuous	Private sector and local communities	Communities have embraced tree planting as demonstrated by increasing demand for tree seedlings and many private and communal plantations documented all over the country
Concessions	Development of PFM and concession rules	Forest Act 2005 Forest Policy 2007	Commercial tree growers and entrepreneurs including foreign investors	Communities have embraced tree planting as demonstrated by increasing demand for tree seedlings and many private and communal plantations documented all over the country
Provision of training and extension services	Providing training and tree planting	KFS Forest Extension Unit Continuous	Private sector and local communities	Communities have embraced tree planting as demonstrated by increasing demand for tree seedlings and many private and communal plantations documented all over the country
Financial support	Constituency Development Fund (CDF) Forest Management and Conservation Fund (FMCF)	Government and development partners, through development governance mechanisms Continuous	Private sector and local communities	Financing of plantation forestry activities by private and community parties remains a major constraint
Pilot technological innovations	Tree biotechnology programme providing improved seed	KEFRI programme funded by JICA, 2003-2010	Private sector and local communities	Financing of plantation forestry activities by private and community parties remains a major constraint

Source: Kenya Forest Service (2010)

16.10.2 Farm forestry

Trees are an essential part of diversified farm production, providing both subsistence products and incomes while contributing to soil and water conservation and soil fertility. Products such as wood fuel or fodder from trees, shrubs or grass contribute significantly to the economies of the rural population. Given the growing population, it is not possible to meet all the demands of forest products from government forests. The alternative sources of these products are expected to come from farmlands. Closer linkages between industry and tree farmers could increase earnings from tree products, harvesting, transport and processing. Tree cover on farms is increasing, especially in densely populated high potential areas. This demonstrates that rural communities and individual farmers have basic skills and willingness to improve their land-management practices through tree planting for their own benefit. The challenge is to promote commercial forestry, improve farm forestry management, and enhance efficient utilization and marketing of forestry products.

16.10.3 Dry lands forestry

The country's arid and semi-arid lands (ASALs), which cover about 80 per cent of Kenya's total land surface (Government of Kenya, 2007) and hold about 25 per cent of the human population, are unique in nature and require special attention to strengthen not only the economic base of the inhabitants but also the national economy. Kenya's dry lands, although rich in biodiversity, are often stressed by frequent drought. Livestock keeping is the main economic activity of these dry lands. However, due to population pressure in the high and medium potential areas, there is migration into the dry land areas resulting in depletion of grazing lands, the forest resource and tree cover degradation.

The dry lands have the potential to supply marketable commodities on a sustainable basis, such as gums and resins, aloe, charcoal, essential oils, silk, edible oil, commercial juices, frankincense, indigenous fruits, honey and timber. These products can go a long way towards improving the livelihoods of Kenyans living in the dry lands and contributing to the national income.

16.10.4 Private forests

Forests under private ownership play a significant role in the provision of forest goods and services supplementing wood supply from government forests. The increasing demand for timber and wood products in the domestic and international markets can be tapped through involvement of the private sector in industrial wood production and supply. However, in the past, market forces have not been allowed to play their part in the marketing of timber, leading to a distortion of prices. The Forest Policy (2007) has put in place mechanisms that will ensure forest product markets function in a transparent manner. It will also endeavour to promote market forces in pricing of forest products for optimum resource allocation. This will in turn encourage long-term investment in private forests.

16.11 Opportunities for Investing in the Mining Sector in the Counties

The Constitution is very clear on the protection, preservation and conservation of the environment. While sustainable utilization of minerals and other extractive resources will be the ultimate goal of the counties, various opportunities exist at the counties in the mineral sector such as trading with sand, stones, ballast and other materials between those counties that have the resources and those that do not have. In doing so, the county governments will be required to come up with structures, benchmarks, laws, legislation, guidelines, and standards on environmental management in the extraction of these resources. They will also be required to set standards for responsible stewardship of natural resources at the counties by identifying and resolving ambiguities, contradictions and overlaps in legal, regulatory and institutional frameworks relating to the mining sector.

The pressure to conserve the environment is expected to increase with the expanding awareness of the benefits of a clean environment and sustainable use of natural resources as more development and massive activities are devolved to the counties. We expect to see increased demand of building resources such as timber, sand, stones and ballast, as counties prepare to accommodate county governments. Increased demand for housing, water and pressure on land for construction, sand mining etc will also reduce the land available for agriculture. In this regard, the national government will need to support improvements in social and environmental safeguards by working with indigenous communities in finding strategies for mitigating the environmental impact of mining. To ensure the locals are involved, ways of bringing in inclusive business models to increase local, regional and national employment and economic participation of youth and women in the sector will need to be explored. To maximize economic opportunities and to promote effective use of public-private partnerships, counties will require to explore possibilities for joint infrastructure planning and financing, and collaboration on social responsibility activities, skills development and inclusive business development.

For the areas with minerals such as coal, titanium, natural gas and oil, there is need to kick off the review of the existing legislation and formulation of new legislations to lay the foundation for exploitation of these resources for the benefit of the country in general and the county and community in particular. For instance, the legislation on oil mining would be expected to define and regulate the relationship between the government and various oil players currently operating in Kenya, and at the same time address the relationships amongst various interest groups, from landowners and cultural representatives in the oil-producing areas to members of the private sector. With the new constitutional dispensation and the adoption of devolved governance, the local community has a bigger say in the management of natural resources within their localities. Local communities will be expected to participate and have a great influence in the allocation of coal, oil and gas proceeds.

Given various experiences in and outside African countries, it is clear that Kenya needs to manage the new-found natural resources–coal, titanium, oil and gas very carefully. The exploitation of coal, oil and gas thus confronts Kenya with daunting risks and great opportunities especially for the counties where these resources have been discovered. For Kenya, without experience in commercial mining of resources such as oil, gas and coal, various questions come into focus given the experience of the titanium mining in Kwale which, 10 years after its discovery, the mining is yet to take place. It is critical, therefore, to understand the environment in the very beginning and early stages of resources production by assessing the arrangements in place to govern the exploitation of the resources throughout the entire process.

16.12 Harnessing Climate Change Opportunities

Although climate change disturbs socio-economic and environmental activities, it can bring opportunities that can be harnessed to transform county economies and local livelihoods. As proposed in the National Climate Change Action Plan, countries need to embrace a low-carbon development strategy to curb GHGs emissions while adapting to the effects of climate change. Because of the huge disparities in climate change risk across Kenya, county responses will vary considerably depending on experiences and capacity to respond. Integrating climate change into County Integrated Plans is, therefore, a priority at the devolved level. Designing appropriate responses will require counties to invest in collection of relevant climate data and vulnerability studies, particularly to establish baselines and identify ongoing adaptation strategies for scaling-up.

Sector-specific strategies will be required with a focus on agriculture and food security, water and sanitation, tourism and forestry. Counties should also carefully assess the impact of climate change on infrastructure, such as roads, to inform their design. In the social sector, climate-induced diseases should be integrated in the health service provision at the devolved level. The challenge of climate extremes of droughts and floods will require counties to establish robust early warning systems and disaster responses as envisaged in the Constitution.

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Annex

Annex 17.1: County Population, Number of Doctors and Nurses in Place and Minimum Requirements

s/ No	County	Population	Pop per Doctor	*Approx number of Doctors	Minimum Required	Pop per Nurse	Minimum Required	*Approx number of Nurses
1	Baringo	555,561	278,000	2	56	4,115	592	135
2	Bomet	724,186	103,000	7	85	4,210	951	172
3	Bungoma	1,630,934	45,000	36	128	3,315	1467	492
4	Busia	488,075	31,000	16	70	1,148	793	425
5	Elgeyo Marakwet	369,998	62,000	6	32	2,434	395	152
6	Embu	516,212	13,000	40	54	1,060	551	487
7	Garissa	623,060	52,000	12	61	2,316	665	269
8	Homa Bay	958,791	44,000	22	92	1,949	1028	492
9	Isiolo	143,294	143,000	1	11	3,115	153	46
10	Kajiado	687,312	76,000	9	66	7,723	733	89
11	Kakamega	1,660,651	69,000	24	159	3,122	1771	532
12	Kericho	758,339	15,000	51	58	1,823	630	416
13	Kiambu	1,623,282	15,000	108	159	1,466	1785	1107
14	Kilifi	1,109,735	48,000	23	84	2,655	1184	418
15	Kirinyaga	528,054	31,000	17	54	1,100	563	480
16	Kisii	1,511,422	378,000	4	119	5,703	1348	265
17	Kisumu	968,909	15,000	65	92	1,433	1033	676
18	Kitui	1,012,709	26,000	39	96	1,770	1081	572
19	Kwale	649,931	46,000	14	63	3,080	693	211
20	Laikipia	399,227	21,000	19	35	1,446	426	276

s/ No	County	Population	Pop per Doctor	*Approx number of Doc-tors	Mini-mum Re-quired	Pop per Nurse	Mini-mum Re-quired	*Approx number of Nurses
21	Lamu	101,539		N/A	7		108	N/A
22	Machakos	1,098,584	27,000	41	102	1,688	1172	651
23	Makueni	884,527	37,000	24	87	1,970	944	449
24	Mandera	1,025,756	256,000	4	97	14,051	1094	73
25	Marsabit	291,166	321,000	1	26	1,967	311	148
26	Meru	1,356,301	38,000	36	126	1,609	1447	843
27	Migori	563,033	24,000	23	88	1,478	978	381
28	Mombasa	939,370	7,000	134	89	1,381	1002	680
29	Muranga	942,581	17,000	55	87	1,609	951	586
30	Nairobi	3,138,369	23,000	136	123	2,797	3548	1122
31	Nakuru	1,603,325	32000	50	153	2,146	1710	747
32	Nandi	752,965	94,000	8	72	3,137	803	240
33	Narok	850,920	41,000	21	83	3,128	908	272
34	Nyamira	598,252	100,000	6	41	2,498	519	239
35	Nyandarua	596,268	22,000	27	56	1,117	638	534
36	Nyeri	693,558	5,000	139	67	654	740	1060
37	Samburu	223,947	25,000	9	20	1,037	239	216
38	Siaya	842,304	44,000	19	82	1,815	898	464
39	Taita Taveta	284,657	71,000	4	26	2,612	304	109
40	Tana River	240,075	48,000	5	26	5,108	304	47
41	Tharaka-Nithi	365,330	21,000	17	32	1,773	389	206
42	Trans Nzoia	818,757	273,000	3	76	6,110	873	134
43	Turkana	855,399	285,000	3	83	14,748	912	58
44	Uasin Gishu	894,179	4,000	224	86	706	954	1267
45	Vihiga	554,622	185,000	3		3,990		139
46	Wajir	661,941	132,000	5	48	4,163	706	159
47	West Pokot	512,690	73,000	7	53	1,979	547	259

Source: CRA 2011; *Computed by dividing population with Population per doctor.

Annex 17.2: Number of Health Facilities Listed by Counties

Counties	Facilities Listed	Population	Population per Facility*
Baringo	188	555,561	2,955.11
Bomet	156	724,186	4,642.22
Bungoma	146	1,630,934	11,170.78
Busia	84	488,075	5,810.42
Elgeyo Marakwet	123	369,998	3,008.11
Embu	143	516,212	3,609.87
Garissa	108	623,060	5,769.07
Homa Bay	189	963,784	5,099.39
Isiolo	41	143,294	3,494.98
Kajiado	223	687,312	3,082.12
Kakamega	219	1,650,651	7,537.22
Kericho	153	758,339	4,956.46
Kiambu	437	1,623,282	3,714.60
Kilifi	233	1,109,735	4,762.81
Kirinyaga	242	528,054	2,182.04
Kisii	166	1,152,282	6,941.46
Kisumu	152	968,909	6,374.40
Kitui	296	1,012,709	3,421.31
Kwale	98	649,931	6,631.95
Laikipia	90	399,227	4,435.86
Lamu	43	101,539	2,361.37
Machakos	284	1,098,584	3,868.25
Makueni	184	884,527	4,807.21
Mandera	73	1,025,756	14,051.45
Marsabit	95	291,166	3,064.91
Meru	348	1,356,301	3,897.42
Migori	183	1,028,579	5,620.65
Mombasa	357	939,370	2,631.29
Murang'a	248	942,581	3,800.73
Nairobi	540	3,138,369	5,811.79
Nakuru	343	1,603,325	4,674.42
Nandi	170	752,965	4,429.21
Narok	149	850,920	5,710.87
Nyamira	103	598,252	5,808.27
Nyandarua	122	596,268	4,887.44
Nyeri	388	693,558	1,787.52
Samburu	69	223,947	3,245.61
Siaya	163	842,304	5,167.51

Counties	Facilities Listed	Population	Population per Facility*
Taita Taveta	83	284,657	3,429.60
Tana River	58	240,075	4,139.22
Tharaka Nithi	95	365,330	3,845.58
Trans Nzoia	87	818,757	9,411.00
Turkana	138	855,399	6,198.54
Uasin Gishu	169	894,179	5,291.00
Vihiga	79	554,652	7,020.91
Wajir	106	661,941	6,244.73
West Pokot	86	512,690	5,961.51
Total	8250	38,711,526	4,692.31

Source of Data: eHealth - Kenya Facilities; TISA[1] *Computation by author

[1] ***The Institute of Social Accountability - http://www.tisa.or.ke/countdown-to-counties/kenyas-47-counties/***

Annex 16.1: Human Development Indicators

County	life exp-ncy	Literacy (%)	Sch En-rol(%)	Educn Index	HDI	Fully Im-munised < 1 year (%).	% Popn pry educn	Pop with Sec Educ (%)	Deliv-ered in a Heath Facility	Had all vaccina-tions	Can read and write	No. of pry sch	No. of sec sch
Nairobi	57	88.1	71.3	0.825	0.6533	86.8	50.3	18.1	78.9	91	97.7	197	55
Nyeri	63.9	86.5	73	0.8199	0.6342	46.3	61.4	19.8	84	85.1	92.9	467	184
Uasin Gishu	60.6	82.4	75.1	0.7999	0.6262	76.2	61.6	13.1	30.1	72.7	81.5	391	95
Kericho	59.6	82	78.35	0.808	0.6105	59.1	69.8	11.4	47.3	74	79	478	142
Nyamira	63.2	82.1	76.9	0.8039	0.6064	49.8	64	17.7	61.1	88.1	98.8	299	120
Embu	64.65	77.05	74.35	0.7618	0.6063	33.4	71.3	15.5	60.4	87.9	92.7	359	122
Bomet	66.1	77.7	82.4	0.7931	0.6018	53.2	72.5	11.4	34.8	87.5	74.7	435	93
Laikipia	64.9	69	71.2	0.6973	0.6012	75.3	65.3	13.9	29.8	86.9	78.9	175	41
Nyandarua	63.7	77.3	74.4	0.7631	0.6006	70.3	67.9	14.2	66.4	88.3	75.4	283	88
Kiambu	56	83.9	71.1	0.7965	0.5966	64.8	58.5	17.3	68.9	90	87.4	444	209
Kajiado	63.7	65.2	55.9	0.6212	0.5938	30.9	62	12.5	39.7	70.7	55.4	276	38
Kirinyaga	62.8	73.1	64.7	0.7032	0.5894	51	68.6	16.1	87.4	92.6	70.4	188	96
Muran'ga	63.4	70.1	76.6	0.7227	0.588	46.6	69.5	17.7	54.7	77.5	82.9	362	200
Machakos	59	80.8	75	0.7884	0.5868	54.3	69.7	14.6	30.5	81.3	88	785	207
Keiyo Marak-wet	65.9	66.75	75.55	0.692	0.5846	70.8	71.3	10.6	37.1	81	77.6	322	71
Nandi	60.2	76.8	77.3	0.7698	0.5828	62.4	67.3	10.7	27.4	80.8	74.5	556	135
Mombasa	53.3	79.2	55.5	0.7128	0.5689	72.5	56.9	15.3	68.9	90.3	85.8	92	22
Meru	62.75	57.3	71.35	0.6201	0.5622	46.9	72.3	12.6	69.5	65	59.7	898	279
Kenya	56.6	71.4	70.5	0.7111	0.5608	64	66.6	12.7	37.5	75	66.4	18095	4702
Makueni	57.2	77.6	77.8	0.7767	0.5584	51.3	72.7	14.7	18.2	85	91.4	837	216
Nakuru	55.6	76.4	64.7	0.7253	0.5558	72.5	63.4	13.4	51.4	64.3	83.2	574	162
Tharaka	58.7	69.65	78.1	0.725	0.5534	53.3	75.1	10.4	29.4	44.9	71.4	148	19
Taita Taveta	57.9	66.2	74.3	0.6893	0.5533	51.2	68.7	12.1	40.5	76.6	45.3	178	40
Vihiga	55.9	74.8	72	0.7389	0.5516	65	71.2	12.7	26.1	73.2	70.2	336	105
Lamu	56	67.5	69	0.68	0.5512	66.6	66.4	9.7	29.6	80.5	73.2	74	11

County	life exp-ncy	Literacy (%)	Sch En-rol(%)	Educn Index	HDI	Fully Im-munised < 1 year (%).	% Popn pry educn	Pop with Sec Educ (%)	Deliv-ered in a Heath Facility	Had all vaccina-tions	Can read and write	No. of pry sch	No. of sec sch
Bungoma	59.45	71.5	77.45	0.7345	0.5509	92.4	72.8	11	18.1	68.3	60.5	746	222
Kisii	56	77.5	76.35	0.7711	0.5475	84.6	64.5	17.3	58	64.8	86.5	713	293
Trans Nzoia	60.2	65.1	70.9	0.6706	0.5455	35.7	70.9	10.9	21.3	90.6	51.6	295	88
Kilifi	53.95	55	67.7	0.5925	0.5395	78	67.5	7.1	13.6	66.4	68.2	389	66
Kakamega	54.17	75.1	72.6	0.7402	0.5328	76.8	70.9	11	31.3	69.4	72.7	688	202
Kitui	58.9	63.2	72.3	0.6625	0.5268	59.8	74.8	10	27.1	65	63.8	1011	162
Narok	61.2	49.5	59.35	0.528	0.5061	71.6	73.5	7.2	19.8	62.2	41.4	502	49
Kisumu	40.4	80.3	78.9	0.7894	0.4939	57	62	13	45.6	68.6	65.8	453	151
Migori	46.45	69.8	72.25	0.7062	0.4841	78	68	10.3	32.5	51.6	75.2	442	77
Baringo	63.8	68.1	79.6	0.7194	0.484	32.7	67.7	11.7	32.9	76.5	67.3	508	73
Kwale	53	58.6	66.8	0.6134	0.4771	68.1	70.5	6.3	22.6	92.6	66.5	311	39
West Pokot	58.3	49.5	59.1	0.5269	0.4655	54	72	6.2	16.9	56.2	46.9	168	18
Siaya	40.55	69.9	72.45	0.7075	0.4589	81.6	70.3	10.8	47.4	64.8	66.2	739	162
Busia	47.1	62.7	74.4	0.6662	0.4581	58.1	72.3	9.9	30.7	78.5	56.7	257	53
Isiolo	57.6	42.8	60.1	0.4856	0.4581	77.8	65.7	9.7	28	72.2	59.8	76	8
Homa Bay	39.8	73	73.47	0.7316	0.4553	50.7	65.6	11.8	39.8	50.3	73.3	831	196
Garissa	59.4	38	48.3	0.4142	0.4532	55.8	65	9.6	25.1	74.6	52.4	102	15
Samburu	60.7	27	55.9	0.366	0.4118	73.1	63.6	6.5	18.4	85.6	28.9	131	8
Marsabit	63	27.2	48.6	0.3435	0.4032	66.3	70.4	8.9	17.9	80.1	26.2	102	11
Wajir	61.8	19.6	53.1	0.3077	0.3925	68.8	64.4	9	5.1	72.7	26.2	102	15
Tana River	53.8	31.4	49.8	0.3751	0.3892	62.7	67.9	5.5	22.6	85.7	49.8	82	7
Mandera	61	13.3	39.8	0.221	0.3592	54.3	65.7	9.6	8.2	47	9.9	105	22
Turkana	56.9	16.9	39.3	0.2433	0.3331	30.9	71	9.5	6.9	66.7	18.1	188	15

Data Source: Compiled from UNDP (2010) and Commission on Revenue Allocation (2011)

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The Kenya Institute for Public Policy Research and Analysis (KIPPRA) is an autonomous institute whose primary mission is to conduct public policy research leading to policy advice. KIPPRA's mission is to produce consistently high-quality analysis of key issues of public policy and to contribute to the achievement of national long-term development objectives by positively influencing the decision-making process. These goals are met through effective dissemination of recommendations resulting from analysis and by training policy analysts in the public sector. KIPPRA therefore produces a body of well-researched and documented information on public policy, and in the process assists in formulating long-term strategic perspectives. KIPPRA serves as a centralized source from which the Government and the private sector may obtain information and advice on public policy issues.

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